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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

o Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934

or

ý Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For Fiscal year ended: December 31, 2005 **Commission File number: 333-124186-02**

HUDBAY MINERALS INC.

(Exact name of registrant as specified in its charter)

Canada	**1021, 1031, 1041 and 1044**	**Not Applicable**
(Province or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number, if applicable)	(I.R.S. employer identification number, if applicable)

201 Portage Avenue, Suite 1906
Winnipeg, Manitoba R3B 3K6
Canada, (204) 949-4261
(Address and telephone number of registrant's principal executive offices)

CT Corporation System
111 Eighth Avenue, 13th Floor
New York, NY 10011
(212) 894-8700
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**
Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
$9^{5}/_{8}$% Senior Secured Notes due 2012

For annual reports, indicate by check mark the information filed with this form:

ý Annual Information Form ý Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

84,798,119 Common Shares

Indicate by check mark whether the registrant by filing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the registrant in connection with such rule.

Yes o No ý

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13(d) or 15(d) of the Exchange Act during the proceeding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements in the past 90 days.

Yes ý No o

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the fiscal year of HudBay Minerals Inc. (the "Registrant"), an evaluation was carried out under the supervision of and with the participation of the Registrant's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2005, the end of the period covered by this annual report, to ensure that material information relating to the Registrant and its consolidated subsidiaries would be made known to them by others within those entities.

There has been no change in the Registrant's internal control over financial reporting during the year ended December 31, 2005 that materially affected, or that is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

The Registrant will continue to periodically review its disclosure controls and procedures and internal control over financial reporting and may make modifications from time to time as considered necessary or desirable.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's board of directors has determined that it has at least one audit committee financial expert, as that term is defined in General Instruction B(8)(b) of Form 40-F, serving on its audit committee. The board of directors has determined that Ronald P. Gagel is an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's corporate governance standards. The Commission has indicated that the designation of a person as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than those imposed on such person as a member of the audit committee and the board of directors in the absence of such designation and does not affect the duties, obligations or liability of any other member of the audit committee or board of directors.

CODE OF ETHICS

The Registrant has adopted a code of ethics entitled, "HudBay Minerals Inc. Code of Business Conduct and Ethics". The Code of Business Conduct and Ethics applies to all directors, officers and employees of the Registrant and its subsidiaries, including the Registrant's principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct and Ethics is available at the Registrant's Internet website, www.hudbayminerals.com, in the Investor Relations — Governance section.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

See the disclosure in the section entitled "Remuneration of Auditors" on page 47 of Exhibit 1, the Registrant's Annual Information Form, which is incorporated by reference herein.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Pursuant to the Audit Committee charter, the Audit Committee is to pre-approve the fees and other compensation paid to the independent auditor and to pre-approve all non-audit services to be provided to the Registrant or any of its subsidiaries by its independent auditor. More generally, the Audit Committee is to instruct the independent auditor that the board of directors, as representatives of the shareholders, is the client of the independent auditor. The Audit Committee is also to review and discuss, on an annual basis, with the independent auditor all significant relationships the independent auditor has with the Registrant to determine their independence.

During the year ended December 31, 2005, none of the services described above under "Principal Accountant Fees and Services" under the captions "Audit-Related Fees", "Tax Fees" and "All Other Fees" were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

HudBay does not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

See the disclosure in the section entitled "Contractual Obligations and Commitments" on page 29 of Exhibit 3, the Registrant's Management's Discussion and Analysis of Results of Operations and Financial Condition — Fourth Quarter and Year Ended December 31, 2005, which is incorporated by reference herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

The Registrant has previously filed with the Commission a Form F-X in connection with the 9 5/8% Senior Secured Notes due 2012.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

HUDBAY MINERALS INC.

By: /s/ JEFFREY A. SWINOGA

Name: Jeffrey A. Swinoga
Title: Vice-President and Chief Financial Officer

Dated: March 21, 2006

EXHIBIT INDEX

Exhibits	Description
1	Annual Information Form for the Year Ended December 31, 2005
2	HudBay Minerals Inc.'s Comparative Audited Consolidated Financial Statements, including the Notes thereto, as at December 31, 2005 and 2004 and for the years ended December 31, 2005 and 2004, together with the Report of Independent Registered Chartered Accountants thereon
3	HudBay Minerals Inc.'s Management's Discussion and Analysis of Results of Operations and Financial Condition — Fourth Quarter and Year Ended December 31, 2005
4	Consent of Deloitte & Touche LLP
5	Consent of Kim Lau, BSc. Geo.
6	Consent of Gerry Beauchamp, BSc., P.Eng.
7	Certification of Peter R. Jones required by Rule 13a-14(a) or Rule 15d-14(a)
8	Certification of Jeffrey A. Swinoga required by Rule 13a-14(a) or Rule 15d-14(a)
9	Certification of Peter R. Jones pursuant to Rule 13a-14(b) or 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code
10	Certification of Jeffrey A. Swinoga pursuant to Rule 13a-14(b) or 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code

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Exhibit 1

HUDBAY MINERALS INC.

ANNUAL INFORMATION FORM

FOR THE

YEAR ENDED DECEMBER 31, 2005

March 21, 2006

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This annual information form ("AIF") contains "forward-looking information", which includes, but is not limited to, statements with respect to our future financial or operating performance and that of our subsidiaries and projects, the future price and consumption of zinc and copper, the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures (including environmental capital costs for closure and reclamation of mines), the availability of third party concentrate, mine life projections and cash flow estimates. Whenever you read a statement that is not simply a statement of historical fact, such as when we describe what we or others "plan", "expect", "project", "intend", "believe", "predict", "estimate", "forecast", or "anticipate" or a statement that certain events or conditions "may" or "will" occur, you must remember that these expectations may not be correct or that we or others, as the case may be, may not accomplish such goals. Similarly, statements that describe our objectives, plans or goals are or may be forward-looking statements. Forward-looking information is based on our opinions and estimates at the date of such information, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from what we project in the forward-looking information. These factors include the inherent risks of fluctuating metal prices and currency exchange rates, hedging risks, the impact of governmental regulation, the exploration, development and operation of mineral properties, the uncertainties involved in interpreting drilling results, project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors described in this AIF under the heading "Risk Factors". Unless required by applicable securities laws, we have no intention to update or revise any forward-looking information if circumstances, estimates or opinions change. You are cautioned not to place undue reliance on forward-looking information.

CURRENCY PRESENTATION AND EXCHANGE RATE DATA

This AIF contains references to both United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars and United States dollars are referred to as "United States dollars" or "US$".

The closing, high, low and average exchange rates for the United States dollar in terms of the Canadian dollar for each of the three years ended December 31, 2005, 2004 and 2003 as reported by the Bank of Canada, were as follows:

	Year ended December 31,		
	2005	2004	2003
Closing	$ 1.16	$ 1.20	$ 1.30
High	1.27	1.39	1.58
Low	1.14	1.17	1.28
Average[1]	1.21	1.30	1.40

(1) Calculated as an average of the daily noon rates for each period.

On March 20, 2006, the Bank of Canada noon rate of exchange was US$1.00 = Cdn $1.16.

DOCUMENTS INCORPORATED BY REFERENCE

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this AIF to the extent that a statement contained herein, or in any other subsequently filed document that also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this AIF. No document or statement therein shall be incorporated or deemed to be incorporated by reference in this AIF unless such document or statement, as the case may be, is specifically stated to be incorporated or deemed to be incorporated by reference herein.

Unless the context otherwise suggests, references to "we", "us", "our" and similar terms, as well as references to the "Company", refer to HudBay Minerals Inc. Unless otherwise stated, all information regarding share capital reflects the consolidation of our common shares on the basis of one new common share for every 30 old common shares, which was effected on December 21, 2004.

GENERAL DEVELOPMENT OF THE BUSINESS

We were formed by the amalgamation of Pan American Resources Inc. and Marvas Developments Ltd. on January 16, 1996, pursuant to the *Business Corporations Act* (Ontario). On March 12, 2002, we acquired OntZinc Corporation, a private Ontario corporation, through a reverse takeover and changed our name to ONTZINC Corporation. On December 21, 2004, we acquired Hudson Bay Mining and Smelting Co., Limited ("HBMS") and changed our name to HudBay Minerals Inc. In connection with the acquisition of HBMS, on December 21, 2004, we amended our articles to consolidate our common shares on a 30 to one basis. On October 25, 2005, the Company was continued under the *Canada Business Corporations Act.*

Our registered office is located at 2200 - 201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6. Our principal executive office is located at 1906 - 201 Portage Avenue, Winnipeg, Manitoba R3B 3K6.

Three Year History

Acquisition of Balmat

As of September 2003, one of our subsidiaries acquired the Balmat Mine from ZCA Mines, Inc. ("ZCA") for US$20 million, pursuant to an asset purchase agreement (the "Balmat Acquisition Agreement"). The purchase price is payable wholly out of 30% of any future net cash flow from operations after allowing for reasonable capital and exploration expenditures and a further US$5 million is payable if the price of zinc averages US$0.70 per pound for a consecutive 24 month period in the five years following the date of the Balmat Acquisition Agreement. Pursuant to the Balmat Acquisition Agreement, we assumed certain future liabilities, including, all future debts, obligations, commitments and liabilities arising out of or directly relating to the ownership and operation of the Balmat Mine and, in particular, any future liabilities relating to the reclamation of such mine.

In order to meet the anticipated financial requirements associated with maintaining and reactivating the Balmat Mine, we completed several private placements of our securities. Proceeds of these private placements have also been used for working capital purposes. On November 9, 2005, we announced our intention to reopen the Balmat Mine. We expect that first ore will be produced from Balmat in the second quarter of 2006, building to full production of an estimated 60,000 tons of zinc in concentrate per year within 35 months. We plan to process zinc concentrate produced at the Balmat Mine at the Canadian Electrolytic Refinery in Valleyfield, Quebec with an option to treat up to 40% of the total concentrate at our Zochem plant in Brampton, Ontario.

Acquisition of HBMS

On October 7, 2004, we entered into an acquisition agreement to acquire from Anglo American International, S.A. all of the issued and outstanding shares of 152640 Canada Inc. (the "Acquisition"), which held all of the issued and outstanding shares of HBMS, for a purchase price of approximately $325 million, subject to adjustments on closing. Effective December 13, 2004, the parties amended the Acquisition Agreement to provide that the net purchase price would be paid in cash in the amount of approximately $303 million and as to $13 million by the issuance to Anglo American of 5,777,777 common shares of the Company and 86,666,667 share purchase warrants (the "Warrants"). Following the Acquisition, we consolidated our common shares on the basis of one new common share of the Company for every 30 old common shares (the "Consolidation"). As a result of the Consolidation, every 30 Warrants are exercisable for one common share, at a price of $3.15 per common share, at any time prior to 5:00 p.m. (Toronto time) on December 21, 2009.

To fund the Acquisition, we completed an offering (the "Subscription Receipt Offering") of 1,917,510,000 subscription receipts (the "Subscription Receipts") for gross proceeds of approximately $143.8 million and HBMS completed an offering (the "Debt Financing") of $9^{5}/_{8}$% senior secured notes (the "Notes") due January 15, 2012 for gross proceeds of US$175 million. Upon closing of the Acquisition, each Subscription Receipt was exchanged for one pre-Consolidation Common Share and one-half of a Warrant. The Notes contain covenants that, among other things, restrict our ability in certain circumstances to declare or pay dividends or make other distributions on our Common Shares, incur additional debt, enter into sale or leaseback transactions, create liens, make investments, engage in transactions with affiliates, consolidate or merge into other entities or sell assets.

Pursuant to a guarantee ("Parent Guarantee"), dated as of March 24, 2005, we have unconditionally guaranteed the debt obligations of HBMS under the Notes. We have fully and unconditionally guaranteed all payments on the Notes, including payments of principal, premium (if any) and interest. The guarantee is unsecured and ranks subordinate in right of payment to all senior indebtedness of the Company. The guarantee will terminate on the date upon which we cease to hold a majority of the outstanding voting shares of HBMS.

Province of Manitoba Loan

In March 2005, we negotiated the continuation of our $17.5 million loan with the Province of Manitoba. The terms of the original agreement with the Province provided that the loan may be repayable in the event of a change of control of HBMS. After our purchase of HBMS on December 21, 2004, new terms and conditions were negotiated with the Province to maintain the loan repayment schedule in accordance with the terms of the then existing agreement. The loan will remain interest-free pending the satisfaction of certain conditions. HBMS plans to fully retire the $15.5 million outstanding loan principal, which is supported by a letter of credit, by 2008.

Exploration Program

In 2005, we raised $10 million through issues of HudBay common shares on a flow-through basis. During 2005, we used approximately $5.5 million of these funds to fund our exploration program.

Collahuasi Agreement

For the mutual benefit of both parties, the evergreen concentrate agreement (the "Collahuasi Agreement") between HBMS and Compania Minera Dona Ines de Collahuasi ("Collahuasi"), Chile, to purchase 40,000 dmt of copper concentrate per year from Collahuasi, was terminated effective June 30, 2005. The termination of the Collahuasi Agreement, which would otherwise have expired in 2008, is not expected to impact our ability to supply copper concentrate to our Flin Flon smelter.

Closure of Konuto Lake Mine

During the fourth quarter of 2005, the Konuto Lake Mine was closed, as planned, due to the completion of mineral reserves at the mine.

Agency Relationship with CMM

As at January 1, 2006, we changed our contractual relationship with Considar Metal Marketing Inc. ("CMM"), our 50% owned subsidiary, from a sales relationship to an agency relationship with respect to the marketing of copper oxide and precious metals. Pursuant to this agency relationship, as of December 31, 2005 we own 100% of our copper and precious metal inventory until its sale to a customer. Previously, HBMS recognized 100% of its sales when its product was shipped from the Flin Flon operations and sold to CMM.

Acquisition of White Pine Copper Refinery

In January 2006, through a U.S.-based wholly owned subsidiary of HBMS, we completed the purchase of White Pine Copper Refinery Inc., a Michigan-based copper refinery, for US$13 million, plus US$2.1 million in adjustments. The refinery will provide us with a dedicated processing facility for HBMS copper anodes and reduce our processing costs for copper by approximately $0.02 per pound of copper.

Revolving Credit Facility

In February 2006, we announced that HBMS had completed a $25 million revolving credit facility with The Bank of Nova Scotia (Scotia Capital). The facility, subject to customary conditions, is guaranteed by the Company and our subsidiary Hudson Bay Exploration and Development Company Limited, and is secured by inventory and receivables. The bank may consent to increasing the facility to $50 million if HBMS satisfies certain conditions.

Repayment of Notes

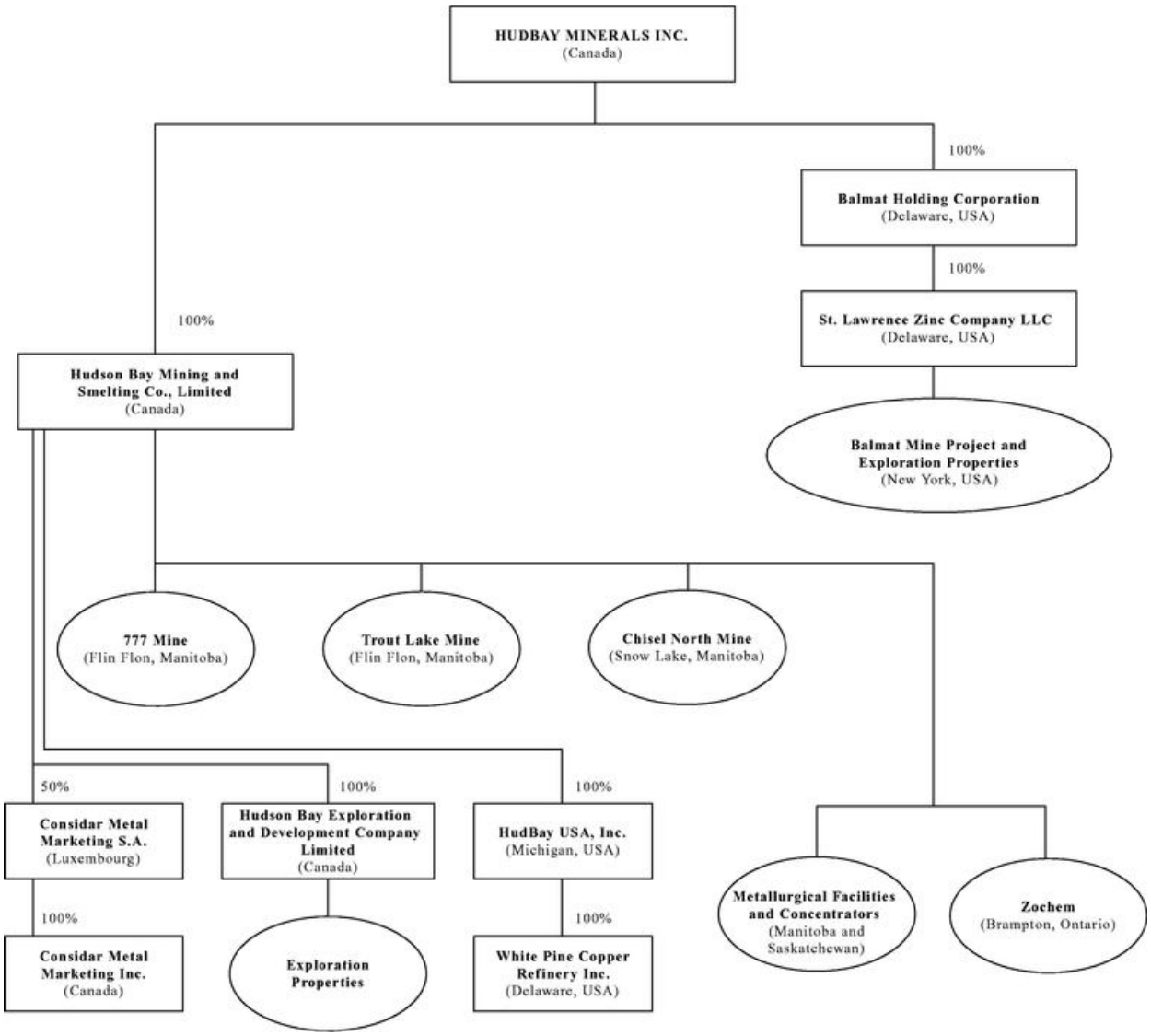
In February 2006, we announced that HBMS had repurchased, through the open market, US$19 million of its Notes.

Significant Acquisitions

We did not complete a significant acquisition during the financial year ended December 31, 2005.

Corporate Structure

We hold the principal subsidiaries and properties shown in the following chart. The chart shows the jurisdiction of incorporation of our principal subsidiaries and the percentage of voting securities we beneficially own or over which we have control or direction. For each of our principal properties, the chart also shows our beneficial interest in the project and the location of the project.



OUR BUSINESS

Our Business

We are an integrated base metals mining and smelting company. We have:

- the 777 and Trout Lake zinc and copper mines near Flin Flon, Manitoba, the Chisel North Zinc Mine near Snow Lake, Manitoba, the Konuto Lake Mine in Saskatchewan (closed fall 2005) and the Balmat mine project in New York State (collectively, the "HudBay Mines"), which had, at January 1, 2006, aggregate estimated proven and probable mineral reserves of approximately 21.4 million tonnes of ore, grading 5.3% zinc, 2.0% copper, 1.8 grams per tonne of gold and 21.1 grams per tonne of silver, and an additional estimated 4.9 million tonnes of inferred mineral resources, grading 7.45% zinc, 1.0% copper, 1.2 grams per tonne of gold and 19.1 grams per tonne of silver as at January 1, 2006;

- a metallurgical complex located in Flin Flon, Manitoba and an ore concentrator near Snow Lake, Manitoba; the Flin Flon metallurgical complex is comprised of an ore concentrator, a zinc pressure leach and electro-winning plant and a copper smelter, with an annual production capacity of 115,000 tonnes of cast zinc and 90,000 tonnes of anode copper, as well as gold and silver by-products;

- a zinc oxide plant located in Brampton, Ontario with annual production capacity of 45,000 tonnes of zinc oxide, which off-takes between 32,000 and 41,000 tonnes of our annual zinc metal production;

- a copper refinery in White Pine, Michigan, with annual production capacity of 75,000 tonnes;

- a seasoned exploration team with a proven track record of discovering new ore bodies, together with a land position of more than 200,000 hectares in Manitoba and Saskatchewan, and land holdings in Ontario, the Yukon, New York State and Chile offering potential for further mineral discoveries;

- experienced mine and production management, and a stable work-force with an excellent health and safety record; and

- a 50% interest in an established marketing joint venture, CMM, which markets our metals primarily on an agency basis and identifies and acquires additional zinc and copper concentrate for our metallurgical complex.

In 2004, we completed a $435 million capital expenditure program (the "777 Project"), that involved the construction and development of the 777 mine in Flin Flon and the Chisel North mine in Snow Lake, capacity expansion of the Flin Flon concentrator, expansion of the Flin Flon zinc plant, including construction of an electrolytic cellhouse and other infrastructure upgrades. The 777 Project has led to improvements in operating margins of the Manitoba and Saskatchewan mines, workplace productivity and workplace safety.

Total 2005 HBMS production was approximately 115,000 tonnes of refined zinc, 86,000 tonnes of refined copper, 102,000 ounces of gold and 1,410,000 ounces of silver, derived from 228,000 tonnes of zinc concentrate and 318,000 tonnes of copper concentrate (including 112,000 tonnes of purchased concentrate).

We also own: the development project Gays River mine in the Province of Nova Scotia, Canada; exploration lands in Manitoba and Saskatchewan, and exploration properties in the Province of Ontario, Yukon and Chile. In December 2005, we announced that we had entered into a letter of intent to sell the shares of

ScoZinc Limited, which owns the Gays River lead and zinc mineral property, to Acadian Gold Corporation for $7.5 million. The potential sale transaction is subject to the satisfaction of certain conditions.

Our Competitive Strengths

We believe that the following business strengths will enable us to increase our production and profitability.

Modern, Upgraded Facilities

Between 1998 and 2004, we invested approximately $435 million to expand, modernize and improve our mines and plants in Manitoba and Saskatchewan. The 777 Project involved construction and development of the modern 777 and Chisel North mines, capacity expansion at the zinc and copper concentrator in Flin Flon and expansion of our zinc plant, including the installation of an electrolytic cellhouse and other infrastructure upgrades. The design of our Flin Flon zinc plant permits a further low cost 15% capacity expansion. The 777 Project improved our productivity through both the implementation of new technology and streamlining of our workforce. This has translated into operating efficiencies, cost reductions and the production of higher grades of ore.

Land Position with Strategic Exploration Potential

We hold a land position of more than 200,000 hectares located primarily in Manitoba and Saskatchewan. Over the more than 75 year operating history of HBMS, we have brought into production over 25 ore bodies on HBMS lands. Currently, we operate three mines on this land (at year end). Our land position includes select portions of the highly productive Flin Flon greenstone belt that we believe has excellent potential for further ore body discoveries. Since much of this property is within 100 kilometres of our two concentrators in this region, we anticipate that we will be able to economically exploit even small ore bodies that we discover.

We also own 51,276 acres of mineral rights in northern New York and lease an additional 4,774 acres of mineral rights in the areas proximate to the Balmat mine.

Vertically Integrated Operations

Our Flin Flon and Snow Lake operations are comprised of three operating mines, two concentrators, a 90,000 tonne per year copper smelter, a 115,000 tonne per year zinc plant and related infrastructure. These integrated operations limit our exposure to fluctuating third party treatment and refining charges. In addition, we have available capacity at our metallurgical plants, currently filled by purchased concentrates, which gives us the flexibility to develop ore bodies in the area of Flin Flon and Snow Lake that a mining company without proximate metallurgical plants could not develop profitably after payment of transportation and treatment charges. Our zinc oxide production facility, Zochem in Brampton, Ontario, receives and processes a significant amount of our zinc metal production. This off-take mitigates the impact on us of volume cycles in the zinc metal market. Through CMM, our marketing joint venture, we monitor and maintain customer relationships that have, historically, supported demand and premium pricing for our zinc, zinc oxide and copper products. Our White Pine copper refinery, acquired in January 2006, completes our copper vertical integration, reduces our unit cost to produce copper and provides assurance of access to a facility to process anode copper products from our Flin Flon smelter

Experienced Management Team

Our management and directors have considerable experience in identifying, acquiring and financing mining operations as well as managing public companies. We believe this experience provides a solid base on which to expand our operations. Our management team also has a proven record of success in various aspects of the mining industry, including mining, processing, marketing and the subsequent reclamation of mines. The

experience of management at HBMS was integral to the success of the 777 Project, which was completed ahead of schedule and on budget.

Skilled and Stable Workforce and Strong Safety Record

The HBMS workforce is well trained, historically stable and has significant operational experience at all levels. There has not been a labour work stoppage at the existing HBMS operations in over 30 years, despite significant labour reductions since 1991. Moreover, HBMS has a labour stability agreement in place until 2012 providing a framework for labour relations that prohibits strikes or lockouts at its operations. See "Our Business — Operations — Employees."

HBMS has established a strong safety record. In 2004, HBMS was recommended for registration of its Safety Management System under Occupational Health and Safety Assessment Series 18001 ("OHSAS 18001"). For the three years ended December 31, 2005, HBMS experienced an average annual rate of 0.75 lost time injury frequency per 200,000 hours worked. We believe that improvements in the safety of the HBMS workforce assist in maintaining healthy labour relations between the HBMS management and workforce.

Well-Developed Low-cost Infrastructure

We have a well-developed, low-cost infrastructure at our Manitoba and Saskatchewan operations. Substantially all of our electrical power is supplied by Manitoba Hydro from both its and Saskatchewan Power Corporation's power grids, which are fed by three hydroelectric generating stations. Historically, the price of electricity from Manitoba Hydro has been among the lowest offered by major energy utilities in North America. The water supply for the Flin Flon metallurgical complex is pumped from nearby Trout Lake. Further, the Flin Flon properties have well developed access to rail, road and air transportation. Rail access allows concentrate and many other key consumables, such as propane and fuel oil, to be purchased in bulk. It also provides the lowest cost transport of our products.

Our Strategy

Our strategy is to leverage our proven operating assets, significant mineral reserves and mineral resources and experienced workforce to:

Identify Further Opportunities to Lower our Costs

Over the past decade, we have lowered our unit costs of production through infrastructure investments, a focus on workplace safety, targeted workforce reduction and an increase in production. For example, we have taken advantage of an opportunity to reduce our costs of production by lowering our costs for copper refining through the purchase of the White Pine copper refinery. Increasing production of concentrate from the HudBay Mines or other of our properties proximate to or otherwise synergistic with our metallurgical facilities is our most significant opportunity to reduce our unit costs and improve our profitability.

Investigate Opportunities for Mine Development and Mineral Reserve Exploration

We plan to exploit ore bodies and pursue expanded exploration programs. We believe that there remains significant potential to discover additional mineral reserves within the HudBay Mines, particularly at the Trout Lake and 777 mines. We also intend to focus our exploration program on the HBMS land position in Manitoba and Saskatchewan. In November 2005, we announced our intention to re-open the Balmat Zinc Mine in New York State. Using the experienced operations managers from HBMS and the marketing experience of CMM, we believe that we can reproduce many of the operational efficiencies of HBMS at the Balmat mine. We will otherwise focus our development and exploration programs on our other existing projects or future projects to the extent they present attractive opportunities to expand our mineral reserves.

Pursue Growth Through Selective Acquisitions

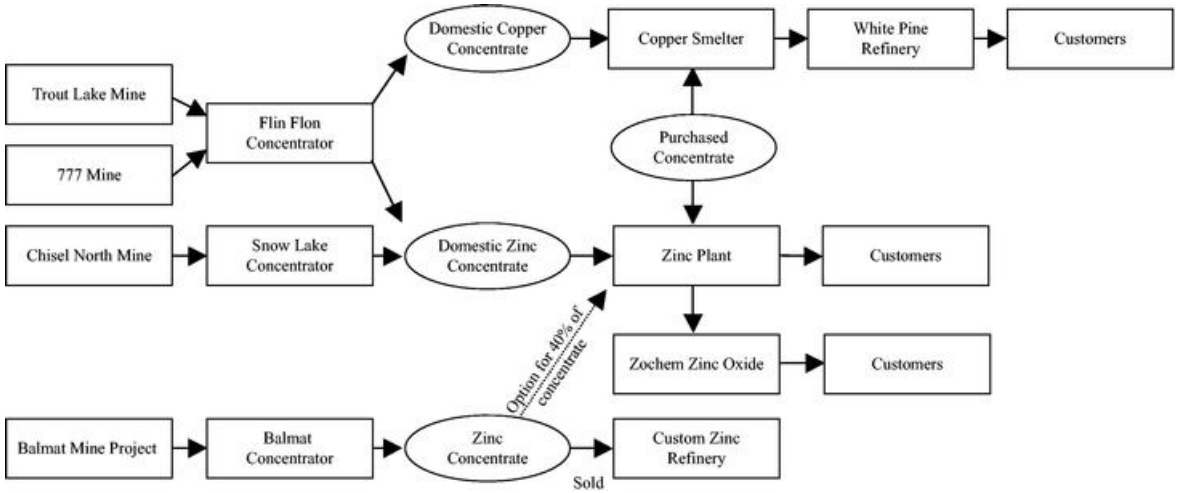
We believe there is opportunity for future growth through selective acquisitions of operating assets and properties at an advanced state of exploration and development. Leveraging the expertise of our management team, we intend to pursue a selective and disciplined acquisition strategy in areas of political stability, with a particular focus on properties in North America, Europe, Australia and South America.

Maintain Strong Safety and Environmental Performance

One of our core values is protecting the health and welfare of our employees and the environment. We have achieved an excellent safety record in recent years and we are committed to continuous improvement of this record. We intend to continue to adhere to strict environmental compliance standards with a goal of continually improving our environmental performance. The Flin Flon, Snow Lake and Zochem operations have been certified to the ISO 14001:1996 Environmental Management System. We believe that our ability to minimize lost-time injuries and environmental regulatory violations is a significant factor in maintaining and realizing opportunities to improve overall operational efficiency.

Operations

We are a vertically integrated base metals mining and smelting company. The following chart outlines our current operations flow.



Notes:

1. Our relationship with CMM was converted to an agency relationship on January 1, 2006, whereby, as of December 31, 2005, we own 100% of our copper and precious metal inventory are until sold to customers.

2. We expect to start ore production at the Balmat Mine Project in the second quarter of 2006.

The following map shows the locations of our facilities in Manitoba and Saskatchewan.



The Balmat mine and concentrator is located in St. Lawrence County, New York State, approximately 32 kilometres south of the St. Lawrence River. The White Pine copper refinery is located in the upper peninsula of the State of Michigan at White Pine. Zochem is located in Brampton, Ontario.

Historical Production

We produce zinc and copper products from concentrates sourced from the HudBay Mines ("domestic concentrates") and from concentrates purchased from other parties ("purchased concentrates"). The chart below sets out our total metal production from the HBMS operations for the years ended December 31, 2005, 2004 and 2003.

		Production Summary		
	Units	2005	2004	2003
Metal Production from Domestic Concentrates				
Zinc	000s tonnes	114.6	108.4	93.0
Copper	000s tonnes	49.4	43.7	42.1
Gold	000s troy ounces	100.5	77.6	57.0
Silver	000s troy ounces	917.6	696.5	630.3
Metal Production from Purchased Concentrates				
Zinc	000s tonnes	0.1	1.8	24.8
Copper	000s tonnes	36.9	33.2	41.3
Gold	000s troy ounces	1.9	1.4	3.6
Silver	000s troy ounces	492.9	418.1	460.5
Total Metal Production				
Zinc	000s tonnes	114.7	110.2	117.8
Copper	000s tonnes	86.3	76.9	83.4
Gold	000s troy ounces	102.4	79.0	60.6
Silver	000s troy ounces	1,410.5	1,114.6	1,090.8

Underground Mining Operations

As at December 31, 2005, our material properties were the HudBay Mines. The HudBay Mines consist of the 777, Trout Lake and Chisel North mines in northern Manitoba and the Balmat Mine in New York State. The Konuto Lake mine in northern Saskatchewan was closed during 2005. Each of the HudBay Mines is an underground mine.

The HudBay Mines in Flin Flon/Snow Lake

Location

Other than the Chisel North mine, the HudBay Mines are within 24 kilometres of Flin Flon. The Chisel North mine is approximately 215 kilometres east of Flin Flon. The Town of Flin Flon is approximately 750 kilometres north of Winnipeg, the capital of the Province of Manitoba. Flin Flon has a population of approximately 7,000 people, with an additional 3,000 people living in the surrounding community, and has well developed access to road, rail and air transportation.

The water supply for Flin Flon is taken from Trout Lake. Electrical power is supplied from the Manitoba Hydro and Saskatchewan Power Corporation power grids, which are fed by three hydroelectric generating stations.

Annual rental costs for the mineral rights are approximately $280,000, based on a rate of $8.00 per hectare.

The geographical area has cool summers and very cold winters with a mean annual temperature of –2.5 ^{o} C. The predominant vegetation is closed stands of black spruce and jack pine with a shrub layer of ericaceous shrubs and ground cover of mosses and lichens.

Geology

The HudBay Mines are located in the Canadian shield, one of the world's largest exposed areas of Precambrian rocks. Within the Canadian shield are large, deformed remnants of ancient volcanic-sedimentary terrain ("greenstone belts"), which historically have been proven locations of base and precious metals.

The ore bodies of the Flin Flon greenstone belt occur in a highly prospective early Proterozoic island-arc assemblage that stretches for an exposed length of 250 kilometres east-west and 75 kilometres north-south. The deposits are precious metal rich and of the copper-zinc volcanic massive sulphide ("VMS") type hosted in both felsic and mafic volcanic rocks with the felsic type hosting the largest deposits. VMS deposits are best classified into just two major groups, copper-zinc type and zinc-lead-copper type, respectively, which reflects the associations of major ore metals and other geological characteristics. VMS deposits in the area range in size from less than 100,000 tonnes to the more than 100 million tonne Flin Flon/777/Callinan cluster of ore bodies.

History

HBMS has operated in the Flin Flon greenstone belt for more than 75 years. During this period, HBMS has mined approximately 158 million tonnes of ore.

In the mid-1990s, a strategic review of the HBMS operations showed a company in decline; HBMS had declining reserves, lower ore grades, rising costs and a poor safety record. At this time, HBMS concluded that it had less than a ten-year mine life and planned closure of operations before 2005.

In connection with the closure plan, HBMS decided to continue exploration efforts until 1998, the latest time an ore body could be developed for production prior to the planned closure. In 1993, based on its drilling program, HBMS discovered the 777 deposit and by 1997 had defined this ore body. HBMS determined that the 777 ore body had the potential to extend its operations for another 12 to 16 years, if a number of critical factors were first addressed. As a result, HBMS significantly lowered its overall unit operating cost, improved its safety performance and created a performance-oriented culture.

777 Mine

The 777 mine is located immediately adjacent to HBMS' principal concentrator and metallurgical plant in Flin Flon and is part of a cluster of ore bodies. The 777 mine contains approximately 80.1% of the estimated HBMS mineral reserve tonnage as at January 1, 2006.

This mine was first indicated in 1993 by an underground exploration hole that intersected the mineralization at a depth of 1,000 metres. In 1995, a drilling program delineated the ore body. In 1999, HBMS commenced the development of the 777 mine as part of the 777 Project and commercial production from the mine commenced in January, 2004.

The Flin Flon cluster of ore bodies, which encompasses the Flin Flon, Callinan and 777 ore bodies, is comprised of a sequence of volcanic flow and volcaniclastic rocks that are predominantly basaltic in nature. In the mine area, the mine horizon stratigraphic sequence lies on the west side of the Hidden Lake Syncline and strikes about 350 degrees true and dips 50 to 60 degrees to the east.

The mine has an internal ramp system to allow movement between working levels. The 777 shaft is a 6.7 metre diameter vertical shaft to a depth of 1,530 metres. Ore and waste hoisting is with a double-drum hoist with a capacity in excess of 1.35 million tonnes per year using 16-tonne skips. A separate double drum hoist operates a cage and counterweight and a single drum hoist operates a small cage.

Mining is by a combination of mechanized cut and fill and longhole open stoping. Paste backfill is used to fill mined stopes and is delivered from the Flin Flon concentrator by pumping through a network of lined boreholes and pipes. Pillars are left as regional support in addition to the backfill. The host country rock, particularly in the hanging wall, is competent.

Ventilation control is adequate and the main shaft is the primary fresh air intake. Compressors supply compressed air. Pipes are installed to distribute the compressed air and water through the mine. The mine also has adequate electrical power for mining purposes.

The following chart sets forth the production of the 777/Callinan mine for the years ended December 31, 2005, 2004 and 2003.

777 Mine Historical Statistics[(1)]

		December 31		
	Units	2005	2004	2003
Ore Mined	000s tonnes	1,093.7	975.9	709.2
Zinc	%	4.47	4.50	3.96
Copper	%	2.24	2.89	2.80
Gold	grams/tonne	2.09	2.26	1.92
Silver	grams/tonne	23.83	23.14	21.81
Manpower	persons	216	188	177
Contained Zinc	tonnes	48,863	43,906	28,090
	(Mm lbs)	(107.7)	(96.8)	(61.93)
Contained Copper	tonnes	24,481	28,203	19,871
	(Mm lbs)	(54.0)	(62.2)	(43.81)
Contained Gold	kilograms	2,303	2,013	1,362
	(troy oz)	(74,043)	(70,999)	(43,777)
Contained Silver	kilograms	26,072	20,585	15,464
	(troy oz)	(838,235)	(726,125)	(497,179)

Note:

(1) Includes the connected Callinan Mine.

Trout Lake Mine

The Trout Lake mine is located approximately six kilometres northeast of Flin Flon. The Trout Lake mine contains approximately 12.7% of the estimated HBMS mineral reserve tonnage as at January 1, 2006.

The Trout Lake mine was discovered by Granges Exploration in the 1970s, as a result of testing by drilling an electromagnetic geophysical target located in an area beneath Trout Lake believed to be underlain by felsic volcanic rocks similar to those that host the Flin Flon ore bodies. Commercial production commenced at the Trout Lake mine in 1982.

The Trout Lake ore body sub-crops beneath Trout Lake and contains more than 30 lenses in several zones. The lenses dip approximately 60 degrees and the average lens width is 8 metres. The ore body is a proximal volcanic massive sulphide deposit. Chalcopyrite and sphalerite are the main base metal sulphides and occur with pyrite in massive sulphide layers.

The main shaft has been sunk to a depth of 1,091 metres. The mine development includes a number of inclined ramps and steeply inclined ventilation shafts and ore passes. The shaft is a circular two-compartment 4.9 metre diameter vertical shaft operating to a depth of 1,091 metres. The ramp extends to approximately 1,100 metres below surface at an inclination of 15% from the horizontal. A 762 metre long inclined conveyor delivers the ore from the underground crusher to the coarse ore bin adjacent to the shaft.

Mining is by longhole open stoping using trackless equipment. Crushed ore is trucked from the mine site to the Flin Flon concentrator for processing and subsequent treatment in HBMS' zinc plant and copper smelter.

The following chart sets forth the production of the Trout Lake mine for the years ended December 31, 2005, 2004 and 2003.

Trout Lake Mine Historical Statistics

		December 31		
	Units	2005	2004	2003
Ore Mined	000s tonnes	858.8	916.1	872.7
Zinc	%	5.61	5.32	4.82
Copper	%	1.39	1.46	1.17
Gold	grams/tonne	1.47	1.47	1.78
Silver	grams/tonne	14.61	13.58	20.40
Manpower	persons	178	177	183
Contained Zinc	tonnes	48,190	48,773	42,018
	(Mm lbs)	(106.2)	(107.5)	(92.63)
Contained Copper	tonnes	11,921	13,412	10,219
	(Mm lbs)	(26.3)	(29.6)	(22.53)
Contained Gold	kilograms	1,261	1,231	1,556
	(troy oz)	(40,543)	(43,422)	(50,021)
Contained Silver	kilograms	12,533	11,337	17,802
	(troy oz)	(402,955)	(399,890)	(572,352)

Chisel North Mine

The Chisel North mine is 10 kilometres west of the Snow Lake concentrator and about six kilometres south of the Town of Snow Lake, which is approximately 215 kilometres from Flin Flon. The Chisel North mine contains approximately 7.3% of the estimated HBMS mineral reserves, as at January 1, 2006.

In 1986, an exploration program was initiated to systematically explore the Chisel basin. Additional drilling was carried out between 1993 and 1997 to suitably define the ore body for a feasibility study. A total of 77,632 metres in 130 holes and wedges were drilled by 1998. Commercial production commenced at the Chisel North mine in June, 2000.

The deposit consists of massive sulphides overlain by barren basalt volcanic flows. Sphalerite and minor amounts of chalcopyrite are the main base metal sulphides and occur with pyrite in massive sulphide layers conformable to stratigraphy. The ore resources are between 400 metre and 650 metre depths in four stacked zinc rich sulphide lenses.

The mine depth is to the 687 metre level. Mining is by room then pillar, post pillar cut and fill and blast hole stoping using trackless equipment. Ore is truck hauled to surface for crushing and subsequently trucked to the Snow Lake concentrator, by independent trucking contractors.

The following chart sets forth the production of the Chisel North mine for the years ended December 31, 2005, 2004 and 2003.

Chisel North Mine Historical Statistics

		December 31		
	Units	2005	2004	2003
Ore Mined	000s tonnes	336.7	327.9	303.2
Zinc	%	9.00	9.99	11.32
Copper	%	0.19	0.16	0.20
Gold	grams/tonne	0.58	0.48	0.62
Silver	grams/tonne	26.71	25.47	20.26
Manpower	persons	72	65	72
Contained Zinc	tonnes	30,296	32,736	34,319
	(Mm lbs)	(66.8)	(72.2)	(75.7)
Contained Copper	tonnes	654	518	606
	(Mm lbs)	(1.4)	(1.1)	(1.3)
Contained Gold	kilograms	193	143	187
	(troy oz)	(6,212)	(5,060)	(6,015)
Contained Silver	kilograms	8,993	7,612	6,143
	(troy oz)	(289,134)	(268,517)	(197,504)

Konuto Lake Mine

The Konuto Lake mine is situated in Saskatchewan, approximately 24 kilometres from HBMS' principal concentrator and metallurgical plant in Flin Flon. During the fourth quarter of 2005, the Konuto Lake mine was closed, as planned, due to the depletion of mineral reserves.

The Konuto Lake ore body was discovered by an airborne geophysical survey in 1994 with follow-up diamond drilling taking place the same year. The Konuto project capital development and construction started in 1997 and production began in 1999. In 2001 a parallel, wide lens was discovered and is currently being mined. The mine produces approximately 300,000 ore tonnes per annum from near vertical multiple lenses between 40 metres and 465 metres depths. Initial mining was by cut and fill using unconsolidated waste rockfill and since 2003 includes longhole open stoping.

The deposit consists of volcanic hosted massive sulphides overlain by barren basalt volcanic flows. Chalcopyrite and minor sphalerite are the main base metal sulphides and occur with pyrite in massive sulphide layers conformable to stratigraphy. The horizon that hosts the deposit has been repeated by north trending isoclinal folding and may be the same horizon that hosted the Birch-Flexar ore bodies two kilometres east of the Konuto Lake deposit.

Mine access is by a ramp to a depth of 456 metres. Mining is by a combination of longhole open and cut and fill stoping. The ore is crushed on surface under a contract and then hauled over a company road to the concentrator at Flin Flon.

The following chart sets forth the production of the Konuto Lake mine for the years ended December 31, 2005, 2004 and 2003.

Konuto Lake Mine Historical Statistics

		December 31		
	Units	2005	2004	2003
Ore Mined	000s tonnes	312.5	327.2	321.5
Zinc	%	1.81	2.08	1.82
Copper	%	3.90	4.07	3.73
Gold	grams/tonne	1.65	1.92	1.99
Silver	grams/tonne	9.15	9.60	9.50
Manpower	persons	0	42	55
Contained Zinc	tonnes	5,665	6,793	5,841
	(Mm lbs)	(12.5)	(15.0)	(12.9)
Contained Copper	tonnes	12,178	13,308	11,985
	(Mm lbs)	(26.8)	(29.3)	(26.4)
Contained Gold	kilograms	516	573	639
	(troy oz)	(16,598)	(20,200)	(20,553)
Contained Silver	kilograms	2,865	2,863	3,053
	(troy oz)	(92,102)	(100,999)	(98,158)

The Balmat Mine

Note that Imperial units of measurement (i.e. tons, acres, etc.) are used in this description of the Balmat Mine.

The Balmat Mine is a development property located in the Balmat-Edwards mining district in St. Lawrence County, New York State about 32 kilometres south of the St. Lawrence river. The area has been a mining district for over 90 years and all the infrastructure required for ongoing operations at the Balmat mine is available in the immediate area.

The Balmat property comprises several reclaimed zinc mines, the Balmat Mine and related assets, including a 5,000-ton per day concentrator, a rail siding and related maintenance facilities, administration buildings and associated infrastructure. The mine was put on care and maintenance in October, 2001 due to low zinc prices. In November 2005, we announced our intention to re-open the Balmat Mine. We expect that the first ore will be produced in the second quarter of 2006.

We indirectly own 51,276 acres of mineral rights in St. Lawrence (51,175 acres) and Franklin (101 acres) counties in northern New York. We lease an additional 4,774 acres of mineral rights in the areas proximate to the Balmat mine.

The four main ore zones that comprise the Balmat Mine are the Mud Pond, Mahler, New Fold and Northeast Fowler. Leased claims cover 38% of the Mud Pond ore body, 15% of the Mahler ore body, 33% of the New Fold ore body and 40% of the Northeast Fowler trend. The leased claims are subject to a 4% net smelter return royalty. With the exception of one ten-year lease that expires in 2014, the leases have an initial 20-year term, with the first set to expire in 2021, and are renewable for additional terms of 20 years.

History

Between 1915 and 2001, over 43 million tons of ore grading 9.4% zinc were mined from the four mines that have comprised the Balmat-Edwards zinc district. Drilling and development subsequent to 1996 led to a ten-fold increase in Mud Pond mineral reserves. The Mahler orebody was discovered in 2000, while high-grade mineralization was intersected in the New Fold and Northeast Fowler trends in 1997 and 2004, respectively. Prior to October 2001, when the mine was put on care and maintenance, over 9.4 million tons of ore grading 8% zinc was produced from the Balmat mine.

Geology

The Balmat-Edwards district occurs in the Frontenac Arch, an area characterized by a northwesterly trending window of Precambrian rocks overlain by and exposed beneath younger Paleozoic strata and Pleistocene glacial and lacustrine deposits.

The Balmat-Edwards zinc deposits occur in Proterozoic metasedimentary rocks of the Grenville Supergroup.

The zinc orebodies occur in siliceous dolomitic and evaporite-bearing marbles of the Upper Marble Formation, the uppermost of four metasedimentary formations mapped in the district. The Upper Marble is exposed in the core of the Sylvia Lake syncline, a major recumbent, doubly plunging, isoclinal fold lying between the towns of Balmat and Edwards. The Balmat mine is located in the southwestern hinge area of the Sylvia Lake syncline.

Mineralization

The majority of the 14 ore zones in the Balmat Mine are arranged in three "clusters", containing three to five ore zones each.

The mineralization is dominantly zinc sulphide with lead sulphide and iron sulphide. The zinc to lead ratio is approximately 35 to 1.

Stratiform "parent" and stratabound but generally crosscutting "daughter" massive sulphide orebodies plunge gently (15 to 25 degrees) from north-northwest to northeast and generally range in size from 500,000 to 10,000,000 tons. Ore occurs as both tabular and podiform bodies with complex cross-sectional configurations.

Sampling and Analysis

All assays are done at the mine site using appropriate quality-control, quality-assurance checks.

The assay laboratory/metallurgical testing facility has established, documented and supervised procedures for sample preparation, assaying and metallurgical tests. In addition, there is a documented procedure for quality control assurance.

Historic data indicates consistently very close correlation between estimated concentrate head grades versus calculated concentrate head grades, concentrate grades and tailings losses.

Concentrators

Flin Flon Concentrator

At the Flin Flon concentrator, we produce zinc and copper concentrates from ore mined at the 777, Trout Lake and Konuto Lake mines. As part of the 777 Project, the capacity of the Flin Flon concentrator was expanded

from 1.81 million tonnes of ore per year to 2.18 million tonnes of ore per year. The concentrator can handle ore from each mine separately and blending is done at the grinding stage.

The Flin Flon concentrator facility includes a paste backfill. The facility also includes associated infrastructure facilities such as maintenance shops and laboratories.

The ore is crushed in a two-staged process using cone crushers to –19mm with a combination of screens and recycling of oversized material. The fine ore is stored in seven 725 tonne fine ore bins. The grinding circuit has two 3.8 metre by 4.9 metre rod mills and a 5.0 metre by 9.7 metre ball mill operating in closed circuit with six cyclones. The final product is 80% passing 70 microns at a rate of 300 tonnes per hour.

The copper circuit has six 40 m^3 cells for roughing/scavenging and a bank of four 16 m^3 and four 8 m^3 cells for closed circuit cleaning. On removal of the copper, the slurry is fed to the zinc circuit with nine 40 m^3 cells for roughing/scavenging and a three stage cleaning circuit. The system includes an on stream analyzer.

The concentrates are dewatered in two 8 metre diameter high rate thickeners and five 2.6 metre by 6 metre vacuum disc filters. Both copper and zinc concentrate are transferred to the concentrator storage sheds prior to treatment in the metallurgical complex. Tailings from the concentrator are pumped to the Flin Flon tailings impoundment immediately adjacent to the concentrator. We plan to expand the tailings pond in 2006.

Snow Lake Concentrator

The Snow Lake concentrator is approximately 215 kilometres from the metallurgical plants in Flin Flon. The facility processes only the Chisel North mine ore and produces zinc concentrate that is processed at the zinc plant in Flin Flon. Concentrate is shipped by truck to Flin Flon.

After being shut down in 1998, we reopened the Snow Lake Concentrator in 2000 in connection with the commencement of production at the Chisel North mine. The Snow Lake concentrator has a capacity of approximately 1.2 million tonnes of ore per year including crushing, grinding, flotation, thickening, filtering and drying capabilities. However, all of the circuits necessary to throughput rated capacity are not in operation at this time. Power, water, vacuum and other services are available to allow refurbishment to the full production rate.

The ore is crushed to –19mm material by a single crusher. The oversize is processed through a cone crusher and delivered to a 750 tonne fine ore bin. The crushed ore is first ground in a rod mill and then in a ball mill. The zinc flotation is by a set of four zinc rougher cells, three scavenger cells and a three stage cleaning circuit. The concentrates are dewatered and held in a storage shed.

Tailings generated by the Snow Lake concentrator are deposited in Anderson Lake, which we believe mitigates environmental concerns. We expect that the tailings area will have sufficient volume for the projected mine life.

Balmat Concentrator

The 5,000 ton per day Balmat concentrator was commissioned in 1971. In the past, the Balmat concentrator has produced zinc concentrate that is coarse grained and free from substantial amounts of elements deletrious to the smelting and refining process. The Balmat concentrator has not been in operation since October, 2001.

Concentrator Production

The following chart sets forth certain information regarding the total concentrate produced at HBMS concentrators during the most recently completed three fiscal years.

		Flin Flon Concentrator December 31,			Snow Lake Concentrator December 31,		
Production Data		**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Ore Milled	000s tonnes	2,262.6	2,156.1	1,902.7	331.4	327.9	304.0
Zinc	%	4.53	4.50	3.99	9.00	9.99	11.32
Copper	%	2.14	2.46	2.22	0.19	0.16	0.20
Gold	grams/tonne	1.78	1.89	1.89	0.58	0.48	0.62
Silver	grams/tonne	18.14	17.31	19.03	26.78	25.47	20.26
Zinc Concentrate	000s tonnes	164.4	152.5	121.2	56.6	61.8	65.1
Zinc Grade	%	51.5	50.4	49.6	51.3	51.50	51.4
Zinc Recovery to Zinc Concentrate	%	82.6	79.2	79.1	97.3	97.3	97.3
Copper Concentrate	000s tonnes	188.9	209.0	166.3	—	—	—
Copper Grade	%	23.82	23.6	23.2	—	—	—
Copper Recovery to Copper Concentrate	%	92.8	93.0	91.5	—	—	—
Gold Recovery to Copper Concentrate	%	74.9	69.7	46.7	—	—	—
Silver Recovery to Copper Concentrate	%	66.3	68.1	47.9	—	—	—
Manpower:	persons	83	83	81	25	25	25
Productivity:	tonnes milled per employee per month	2,272	2,165	1,958	1,104	1,093	1,013

Zinc Plant

Our zinc plant produces special high-grade ("SHG") zinc metal in three cast shapes from zinc concentrate. Our plant is one of four primary zinc producers in North America. We produced 114,700 tonnes of refined cast zinc in 2005. As part of the 777 Project, the capacity of the zinc plant was expanded by 15% to 115,000 tonnes of cast zinc per year and approximately an additional 15% low cost expansion is possible.

Both domestic concentrate and purchased concentrate are processed at the plant. Approximately 2% of concentrate treated at our zinc plant in 2004 was purchased concentrate, while no purchased concentrate was treated at the plant in 2005. We expect that our need for purchased concentrate will increase, due to declining zinc production at our Flin Flon area mines. In the past, we have purchased zinc concentrate from a number of North American mines. We do not currently have any contracts to purchase zinc concentrate. However, we anticipate that future concentrate requirements will be fully met from both North and South American sources. Further, a portion of the concentrate produced from our re-opened Balmat zinc mine will be railed to our zinc plant for treatment.

The plant incorporates a two-stage zinc pressure leaching. The zinc pressure leach plant uses Dynatec technology to extract zinc from zinc sulphide concentrate. The concentrate is treated in a low acid leach autoclave and a high acid leach autoclave that recovers most of the zinc. The zinc plant also includes a solution purification stage and a modern electro-winning cellhouse designed by Asturiana de Zinc, which uses the largest cathodes in operation. Included in the zinc plant are an oxygen plant, a concentrate handling, storage and regrinding facility, a zinc pressure leach plant, a solution purification plant, a cellhouse, a casting plant and a zinc storage area with the ability to load trucks or rail cars.

The zinc solutions from the pressure leach plant are treated in a four-stage purification process to remove impurities such as copper and cadmium. Following purification, the solution is pumped to the cell house for electro-winning to produce SHG zinc. The cathode zinc is then melted in an induction furnace at the casting plant. The casting plant can produce SHG zinc and zinc alloys in three sizes.

The zinc plant has a dedicated leach residue disposal facility. The bulk of the waste material is gypsum, iron and elemental sulphur. Wastewater is treated and recycled through the zinc plant.

The zinc casting plant is certified to ISO 9001-2000 (quality management system).

Copper Smelter

At our copper smelter, copper concentrates are processed into anodes, which are then shipped by rail to our White Pine copper refinery. There the anodes are refined into market standard copper cathodes.

The copper smelter has an annual capacity of 90,000 tonnes of anode copper. In 2005, we produced approximately 86,000 tonnes.

Both domestic concentrate and purchased concentrate are treated at the smelter. Approximately 35% and 35% of concentrate treated at our copper smelter in 2004 and 2005, respectively, was purchased concentrate. Concentrate has previously been purchased from a number of North American mines, with the principal supplier being the Highland Valley Copper mine in British Columbia. A frame agreement with Highland Valley Copper is in place to supply the principal purchased copper concentrate requirements of HudBay through 2008. In November 2005, HBMS entered into an agreement with Montana Resources LLP to purchase copper concentrate from the Butte Mine in Montana. The purchase agreement provides that HBMS can purchase 10% of Montana Resources' Butte mine concentrate production, or approximately 13,000 dry metric tones in 2006, and 20% of annual production, or approximately 26,000 dry metric tonnes each year thereafter. This agreement runs to 2015, subject to certain termination rights effective after December 18, 2008.

Copper concentrate is delivered to the smelter by conveyor or rail. The copper smelter includes facilities for concentrate handling and storage, flux blending, roasting, calcine handling, smelting in a reverberatory furnace, processing in converting furnaces, anode refining and casting and rail car loading of anodes.

The converter gas handling system at the smelter has reduced fugitive gas emissions at ground level by approximately 90% since 2000, and HBMS has reduced total particulate emission in compliance with regulations and the voluntary Accelerated Reduction and Elimination of Toxics ("ARET") program.

The concentrate is roasted in one of five 6.6 metre by 9.1 metre roasters to remove approximately half of the sulphur. The calcine is then processed through a reverberatory furnace to produce copper matte. The matte is converted into blister copper in converters and then refined and cast into anode in a wheel mould.

The smelter has procedures to handle all the wastes produced by the process. The roaster gases are passed through an electrostatic precipitator to remove dust, which is recycled to the furnaces. The slag is dumped in a slag dumpsite and is used for tailings dam construction.

Zochem

Zochem is the zinc oxide production facility of HBMS, located in Brampton, Ontario. Zochem is a stand-alone operation that off-takes between 32,000 tonnes and 41,000 tonnes of our zinc metal production per year, buffering our production schedules and inventories against the impact of zinc market cyclicality. In 2005, Zochem was the third largest producer of zinc oxide in North America, accounting for approximately 20% of the North American market.

The Zochem facilities have a total capacity of 45,000 tonnes per year of zinc oxide. In 2005, Zochem produced approximately 43,000 tonnes of zinc oxide. The zinc oxide produced by Zochem is sold through CMM.

Zochem is registered to ISO 9001:2000 (quality), OHSAS 18001 (health and safety management system) and ISO 14001:1996 (environmental management system).

White Pine Copper Refinery

The White Pine copper refinery processes copper anode into refined copper cathode. The White Pine copper refinery is located in the western upper peninsula of Michigan. Pursuant to the exercise of an outstanding option, in January 2006, we completed the purchase of White Pine Copper Refinery Inc., the owner of the White Pine refinery, for US$13 million, subject to certain adjustments.

The White Pine Copper Refinery Inc. is the beneficiary of an agreement with the State of Michigan pursuant to which the State of Michigan has covenanted not to take any action against White Pine Copper Refinery Inc. for cleanup costs at the White Pine property in connection with contamination that existed at the time it acquired the property, including contamination emanating from, or attributable to, such contamination, under certain sections of the *Natural Resources and Environmental Protection Act* (Michigan). Pursuant to this agreement, White Pine Copper Refinery Inc. has agreed to certain conditions, including certain remedial obligations. Notwithstanding our acquisition of the White Pine refinery, this covenant has continued for our benefit.

Employees

We have approximately 1,426 permanent employees in the Flin Flon and Snow Lake areas, of whom approximately 1,152 are unionized. Unions representing steelworkers, machinists and aerospace workers, electrical workers, boilermakers, carpenters, painters and operating engineers are among the unions represented. In 1998, HBMS entered into an amending agreement in respect of certain existing collective bargaining agreements, establishing a framework for union/management relations to 2012, subject to the satisfaction of certain ongoing conditions. The amending agreement prohibits strikes and lockouts and provides for binding arbitration in the event that negotiated contract settlements are not achieved. All current collective bargaining agreements are for three-year terms. The parties are currently negotiating the next term of the collective bargaining agreement, which will become effective as of January 1, 2006. We also have a profit sharing plan whereby 10% of HBMS' after tax earnings for any given fiscal year will be distributed to all employees at the Flin Flon/Snow Lake operations, with the exception of executive officers and key management personnel.

Our Zochem division employs 42 people, 26 of whom are unionized. Zochem and the Communication, Energy, and Paperworkers union have a three-year collective agreement, which expires in July, 2006. The Flin Flon amending agreement does not apply to the Zochem collective bargaining agreement.

In addition, we have approximately 100 employees (including contractors) at the Balmat Mine, 60 employees at the White Pine copper refinery and eight head office.

In connection with the Acquisition, HBMS agreed to pay approximately $1.89 million to approximately 23 current employees to cover payments to be made under a retention plan, payable in two equal installments, both of which have been made. In addition, we have agreed to pay retention bonuses in the aggregate amount of $1 million to those HBMS employees appointed as our officers following the Acquisition, which payments have also been made. See "Our Directors and Officers".

Health and Safety

The safety performance at our HBMS facilities is measured by a variety of indices and has markedly improved in all categories over the last ten years. Lost time accident (LTA) frequency rates per 200,000 hours worked have fallen from 16.2 accidents in 1994 to consistently in the 0.75 range over the last three years.

As a result of the significant reduction in the LTA and severity frequency rate per 200,000 hours worked, there was a reduction in HBMS' Worker's Compensation Board assessments from approximately $5 million in 1995 to approximately $1.77 million in 2005.

Principal Products and Marketing

Our primary products are zinc metal, copper metal and zinc oxide. We also produce gold, silver and lead as by-products.

We market our metals through CMM. We formed CMM as a joint venture company with Considar Inc. ("Considar"). HBMS and Considar each own 50% of the shares of Considar Metal Marketing S.A., which in turns owns CMM. CMM markets, predominantly in North America, all of our zinc metal, copper metal and zinc oxide production. We have an agency relationship with CMM with respect to our copper and precious minerals. CMM also assists us in identifying and acquiring additional zinc and copper concentrates to fill the capacity of the HBMS metallurgical complex.

Based on targeted marketing, quality products and long-standing customer relationships, we have historically received a market gross premium on zinc and copper sales, typically in the range of US$0.025 to US$0.055 per pound of zinc and US$0.01 to US$0.04 per pound of copper. In 2005 and 2006, we have experienced periods when premiums were in excess of this range. Our continuing receipt of these premiums will depend on regional supply and demand within the North American market and the continued success of the marketing efforts of CMM.

Suppliers and Raw Materials

We spend a significant percentage of our annual consolidated revenue to procure goods and services in support of our business activities. Principal goods and services include copper and zinc concentrate, maintenance and repair parts and services, electricity, fuel and lubricants, ground support materials, explosives, tires, chemical reagents and ventilation supplies. We use suppliers or independent contractors for a portion of our equipment rebuilds and repairs both on and off-site, as well as for construction and reclamation activities and to support computer systems.

In the past, we have purchased concentrate from a number of North American mines, with the principal supplier being the Highland Valley Copper mine in British Columbia and the Montana Resources Butte mine.

Competition

The base metals mineral exploration and mining business is highly competitive. We compete with numerous other companies for the discovery and acquisition of mineral rich properties that can be developed and produced economically, the technical expertise to find, develop, and operate such properties, the labour to operate the properties, and the capital for the purchase of such properties. Many of these companies are substantially larger and have greater financial resources than we do. Our ability to acquire additional mineral reserves in the future will depend not only on our ability to develop and operate our current properties, but also on our ability to identify and acquire suitable producing properties or prospects for base metals development or mineral exploration. We also compete with manufacturers of substitute materials or products for which zinc and copper are traditionally used. For example, steel treated with epoxy resins or paint may be used in place of zinc-based galvanized steel and aluminum based conductors may be used in place of copper-based conductors. However, due

to the metallic properties of zinc and copper, there are few, if any, substitutes of either that are of comparable quality.

Environmental Liabilities

We have a dedicated team of seven engineers and technicians at HBMS who are charged with managing our environmental activities and our environmental compliance with all applicable standards and regulations.

Air Quality

During the past ten years, we have invested a significant amount to reduce emissions from our copper smelter, resulting in reductions of airborne emissions. We have participated in the Environment Canada ARET and Strategic Options Process ("SOP") programs. We have substantially achieved the ARET reductions and 73% of the 2008 SOP reduction targets. By 2008, we expect to reduce our particulate emissions to 80% of 1988 levels but this may require capital expenditures.

On September 25, 2004, the Canadian federal government issued a proposed notice requiring the preparation and implementation of pollution prevention plans in respect of specified toxic substances released from base metal smelters and refineries and zinc plants. The proposed notice would set annual air release targets for sulphur dioxide, particulate matter and mercury as factors to be considered in the preparation of the pollution prevention plans utilizing best available techniques. The air release targets are divided into two phases, with the first reductions being set for December 31, 2008 with a subsequent reduction by December 31, 2015.

The mercury reduction targets in the proposed notice are consistent with the Canada-wide Standard (CWS) for Mercury Emissions endorsed by the Manitoba provincial government. Recent studies have confirmed that our current mercury emissions are of a similar order as those reported in recent years. These targets are below our current emissions levels for the specified substances and, if implemented in its proposed form, the costs of meeting these targets would be material.

In an effort to improve ambient air quality in the Flin Flon area close to the tailings deposition site, we have placed a slag cover over exposed tailings beaches. Further, we are currently changing our tailings deposit plan to minimize dusting potential. In early 2006, we approved capital expenditures in connection with the expansion of the Flin Flon tailings impoundment system, locating it farther away from the local community.

Water Quality

The operations of HBMS have a number of permitted effluent discharges for the various mines and process facilities, regulated both federally and provincially. Tailings impoundment and water treatment systems at both Flin Flon and Snow Lake as well as mine water treatment facilities are operated to meet the regulated discharge limits for water quality.

In 2005 there were two minor incidents where environmental thresholds were exceeded. HBMS' environmental management systems responded appropriately to minimize the environmental impact of these events, and the incidents did not result in any regulatory action.

At the Balmat operation effluent treatment is less onerous due to the basic mineralogy of the ore, and during normal operations State permitted effluent levels were achieved without additional water treatment requirements. However, during the period of care and maintenance, a water treatment facility had to be commissioned to achieve the necessary effluent discharge water quality resulting from mine dewatering activities during winter months. Effluent quality problems were encountered in the winter of 2005 during re-commissioning due to a number of factors. While it is believed that these factors have now been appropriately addressed, the permitted zinc discharge limit was exceeded in December 2005 and continued into the first quarter of 2006. It is not known at this stage whether this will result in regulatory action.

Contaminated Soils and Facilities

The concentrators, metallurgical facilities and mine sites reflect the impact of historic and current operations. HBMS has undertaken some clean up of the plant and mine areas as part of recent plant site improvements and waste management programs. Full cleanup and restoration will only be undertaken at closure. We believe that progressive reclamation of past operating sites has occurred with good results. We have estimated that total reclamation costs relating to the closure of all our facilities in Manitoba and Saskatchewan will be approximately $53.6 million and the net present value of these costs is $28.3 million. In November 2005, a major Canadian environmental engineering firm completed an evaluation of the closure and reclamation plans for the HBMS operations. Based on this evaluation, we are satisfied that current financial statement provisions for closure and environmental reclamation obligations in Manitoba, Saskatchewan and elsewhere are appropriate and adequate.

The updated closure and reclamation plans are supported by financial assurance consisting of letters of credit and asset pledges for the Flin Flon Metallurgical complex, at closure. The 2005 combined value of the financial assurance provided to the Governments of Manitoba and Saskatchewan is more than $75.0 million.

See "Risk Factors — Reclamation and mine closure costs could adversely affect our cash flow from operations".

RISK FACTORS

An investment in our securities is speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. In addition to the risk factors described elsewhere in this AIF, the risk factors that should be taken into account in any investment decision include, but are not limited to, those set out below. Any one or more of these risks could have a material adverse effect on the value of our securities and should be taken into account in assessing our activities.

The market price of metals is volatile.

Our earnings and financial condition depend upon the market prices of metals, which can fluctuate widely. Metal prices ultimately depend on demand in the end markets for which metals are used. The principal end markets for zinc and copper are the steel and automotive industries and the electrical and electronics industries, respectively. These industries, as well as certain other industries that use zinc or copper, are cyclical in nature. Demand is affected by numerous factors beyond our control, including the general level of industrial production, interest rates, the rate of inflation, and the stability of exchange rates, any of which can cause significant fluctuations in zinc and copper prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of zinc, copper and other metals has fluctuated widely in recent years. Future price declines may materially reduce our profitability and could cause us to reduce output at our operations (including, possibly, closing one or more of our mines or plants), all of which could reduce our cash flow from operations.

Furthermore, a significant decrease in commodity prices may require us to revise our mineral reserve calculations and life-of-mine plans, which could result in material write-downs of our investment in mining properties and increased amortization, reclamation and closure charges. In addition to adversely affecting our mineral reserve estimates and our financial condition, declining commodity prices can affect operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

We may engage in hedging activities, such as forward sales contracts and commodity put and call option contracts, to minimize the effect of declines in metal prices on our operating results. While these hedging

activities may protect us, to some extent, against low metal prices, they also limit the price we can receive on hedged products. As a result, we may be prevented from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract, which could adversely affect our results of operations.

Our operations are subject to currency fluctuations.

As our core operations are located in Canada, our costs are incurred primarily in Canadian dollars. However, our revenue is tied to market prices for zinc and copper, which are denominated in United States dollars. If the Canadian dollar gains value against the United States dollar, our results of operations and financial condition could be materially adversely affected. Although we may use hedging strategies to limit our exposure to currency fluctuations, there can be no assurance that such hedging strategies will be successful or that they will mitigate the risk of such fluctuations.

We face significant environmental risks.

All phases of our operations are subject to environmental regulation in the various jurisdictions in which we operate. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. For example, on September 25, 2004, the Canadian federal government issued a proposed notice requiring the preparation and implementation of pollution prevention plans in respect of specified toxic substances released from base metals smelters and refineries and zinc plants, including our metallurgical complex in Manitoba. The proposed notice would set target emissions for mercury, sulphur dioxide and particulate matter below our current emission levels. There is no assurance that existing or future environmental regulation will not materially adversely affect our business, financial condition and results of operations. There is contamination on properties that we own or owned or for which we have or have had care, management or control that may result in a requirement to remediate that could involve material costs. In addition, environmental hazards may exist on the properties on which we hold interests that are unknown to us at present and that have been caused by previous or existing owners or operators of the properties. We may also acquire properties with environmental risks.

We are committed to compliance with applicable laws, regulations and permitting requirements. However, any failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including us, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on us and cause increases in exploration expenses, remedial and reclamation obligations, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

We are subject to substantial government regulation.

Our mining, processing, development and mineral exploration activities are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although we believe that our exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that

could limit or curtail production or development of our properties. Amendments to current laws and regulations governing our operations and activities or more stringent implementation thereof could have a material adverse effect on our business, financial condition and results of operations.

The costs of compliance with the Kyoto Protocol could have a material adverse effect on our operations.

Canada ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change in late 2002. The Kyoto Protocol came into effect in Canada in February 2005. Various levels of governments in Canada are developing a number of policy measures in order to meet Canada's emission reduction obligations under the protocol. While the impact of the protocol and these measures cannot be quantified at this time, the likely effect will be to increase costs for fossil fuels, electricity and transportation, restrict industrial emission levels, impose added costs for emissions in excess of permitted levels and increase costs for monitoring and reporting. Compliance with these initiatives could have a material adverse effect on our results of operations.

Increased concentrate costs could adversely affect our operations.

We rely on the availability of reasonably priced copper and, to a lesser extent, zinc concentrate to operate the HBMS metallurgical complex at full capacity. Production of concentrate from the HudBay Mines has not been sufficient to operate the metallurgical plants at full capacity. As a result, we purchase significant quantities of copper and, to a lesser degree, zinc concentrate from third parties. Our purchases of copper and zinc concentrate may increase significantly in the future as a result of declining production at the HudBay Mines, which may adversely affect our profitability as processing purchased concentrate is less profitable than domestic concentrate.

The availability of concentrate may be influenced by a number of factors, many of which are not within our control, including operational difficulties at the concentrate suppliers' mines. Shortages of these concentrates have occurred in the past and may occur in the future. We do not have any purchased zinc concentrate contracts in place. Although we have such contracts for copper concentrate, no assurance can be given that agreed upon quantities will be provided by the applicable supplier or that, if supplied, they will be sufficient for our purposes. The price we pay for concentrate is dependent upon (i) treatment and refining charges, which are set on the basis of supply and demand for concentrate, and agreed between the vendors of the concentrate and HBMS, and (ii) freight costs of transporting the concentrate to HBMS' Flin Flon metallurgical complex, both of which can vary significantly. Accordingly, any price increase in, or reduced availability of, concentrate will adversely affect our profitability and the economic viability of our processing operations.

Our exploration activities may not result in discoveries of commercial quantities of ore.

The exploration for and development of mineral deposits involves significant risks. Few properties that are explored are ultimately developed into producing mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. Even if we identify and acquire an economically viable ore body, several years may elapse from the initial stages of development. We may incur major expenses to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities. As a result, we cannot assure you that our exploration or development efforts will result in any new commercial mining operations or yield new mineral reserves to replace or expand current mineral reserves.

Estimates of mineral reserves, mineral resources, and projected cash flows may prove to be inaccurate.

There are numerous uncertainties inherent in estimating mineral reserves and the future cash flows that might be derived from their production. Accordingly, the figures for mineral reserves and mineral resources and future cash flows contained in this AIF are estimates only. In respect of mineral reserve and mineral resource

estimates, no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realized or that a mineral reserve can be mined or processed profitably. In addition, in respect of future cash flows, actual cash flows may differ materially from estimates. Estimates of mineral reserves and mineral resources, and future cash flows to be derived from the production of such mineral reserves and mineral resources, necessarily depend upon a number of variable factors and assumptions, including, among others, geological and mining conditions that may not be fully identified by available exploration data or that may differ from experience in current operations, historical production from the area compared with production from other producing areas, the assumed effects of regulation by governmental agencies and assumptions concerning metal prices, exchange rates, interest rates, inflation, operating costs, development and maintenance costs, reclamation costs, and the availability and cost of labour, equipment, raw materials and other services required to mine and refine the ore. In addition, there can be no assurance that mineral recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. For these reasons, estimates of our mineral reserves and mineral resources in this AIF, including classifications thereof based on probability of recovery, and any estimates of future cash flows expected from the production of those mineral reserves and mineral resources, prepared by different engineers or by the same engineers at different times may vary substantially. The actual volume and grade of mineral reserves mined and processed, and the actual cash flows derived from that production, may not be as currently anticipated in such estimates. If our actual mineral reserves and mineral resources or cash flows are less than our estimates, our results of operations and financial condition may be materially impaired.

Mining operations are inherently dangerous and subject to conditions or events beyond our control, which could have a material adverse effect on our business; Insurance may not cover these risks and hazards adequately or at all.

Mining operations, including the exploration and development of mineral deposits, generally involve a high degree of risk. Our operations are subject to all the hazards and risks normally encountered in the exploration, development and production of zinc metal and copper metal including: adverse environmental conditions; industrial accidents; metallurgical and other processing problems; unusual or unexpected rock formations; ground or slope failures; structural cave-ins or slides; flooding or fires; seismic activity; rock bursts; equipment failures; and periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mines and other producing facilities resulting in partial or complete shutdowns, personal injury or death, environmental or other damage to our properties or the properties of others, delays in mining, monetary losses and potential legal liability. Milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas that may result in environmental pollution and consequential liabilities.

Our insurance will not cover all the potential risks associated with our operations. In addition, although certain risks are insurable, we may be unable to maintain insurance to cover these risks at economically feasible premiums. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to us or to other companies in the mining industry on acceptable terms. We might also become subject to liability for pollution or other hazards that may not be insured against or that we may elect not to insure against because of premium costs or other reasons. Losses from these events may cause us to incur significant costs that could have a material adverse effect upon our financial performance and results of operations.

Title to some of our mineral properties may be challenged or defective.

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to mineral concessions may be disputed. Although we believe we have taken reasonable measures to ensure proper title to our properties, there is no guarantee that title to any of our properties will not be challenged or impaired. Third parties may have valid claims underlying portions of our interests, including prior unregistered liens, agreements, transfers or claims, including aboriginal land claims, and title may be affected by, among other

things, undetected defects. As a result, we may be constrained in our ability to operate our properties or unable to enforce our rights with respect to our properties. An impairment to or defect in our title to our properties could have a material adverse effect on our business, financial condition or results of operations.

Our significant indebtedness could adversely affect our ability to operate our business.

We have a significant amount of indebtedness comprised of the long-term portion of obligations under capital leases, senior secured notes, and a government loan. As at December 31, 2005, we had outstanding indebtedness of $204.5 million with a ratio of debt to equity of 0.78 to 1. In addition, we have other obligations that include pension, employee future benefits and asset retirement obligations.

As of March 24, 2005, we have unconditionally guaranteed the debt obligations of HBMS under the Notes. We have fully and unconditionally guaranteed, on a subordinated basis, all payments on the Notes, including principal, premium (if any) and interest.

This high degree of leverage could materially and adversely affect us in a number of ways including:

- limiting our flexibility to plan for, or react to, changes in our business or market conditions;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes, and in particular for the exploration and development of our current properties and projects;
- limiting our access to cash available from operations for future acquisitions and our business in general;
- increasing our vulnerability to the impact of adverse economic and industry conditions; and
- placing us at a disadvantage compared to our competitors that have a lower degree of leverage.

In addition, we may not be able to generate sufficient cash flows from operations to service our indebtedness, in which case, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing indebtedness or obtain additional financing, any of which could materially adversely affect our operations and ability to implement our business strategy.

Restrictive covenants in the indenture governing the Notes, our revolving credit facility and any other debt instrument may prevent us from pursuing business activities that could otherwise improve our results of operations.

The terms of the indenture governing the Notes limit the ability of certain of our principal subsidiaries to, among other things:

- incur additional indebtedness or contingent obligations;
- enter into sale and leaseback transactions;
- make investments;
- grant liens;
- make capital expenditures;
- enter into transactions with affiliates;

- sell assets; and

- acquire the assets of, or merge or consolidate with, other companies.

Pursuant to our revolving credit facility with The Bank of Nova Scotia, we must maintain certain financial ratios and satisfy other non-financial maintenance covenants. Compliance with these restrictive covenants and financial ratios, as well as those that may be contained in any future debt agreements, may impair our ability to finance our future operations or capital needs or to take advantage of other favourable business opportunities. Our ability to comply with these restrictive covenants and financial ratios will depend on our future performance, which may be affected by events beyond our control. Our failure to comply with any of these restrictive covenants or financial ratios will result in a default under the particular debt instrument, which could permit acceleration of the indebtedness under that instrument and, in some cases, the acceleration of indebtedness under other instruments that contain cross-default or cross-acceleration provisions. In the event of a default, or a cross-default or cross-acceleration, we may not have sufficient funds available to make the required payments under our debt agreements. If we are unable to repay amounts owed under the terms of the credit agreement governing any credit facility that we may enter into in the future, those lenders may be entitled to take possession of the collateral securing that facility to the extent required to repay those borrowings. In such event, we may not be able to fully repay the notes, if at all.

We may not be able to acquire desirable mining assets in the future.

One of our strategies is to grow our business by acquiring attractive, quality mining assets. We expect to selectively seek strategic acquisitions in the future. However, there can be no assurance that suitable acquisition opportunities will be identified. Further, restrictive covenants in our current or future debt instruments may restrict and limit our ability to pursue future acquisitions. Our ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to us may be limited by the number of attractive acquisition targets, internal demands on our resources, competition from other mining companies and, to the extent necessary, our ability to obtain financing on satisfactory terms, if at all.

Intense competition could reduce our market share or harm our financial performance.

The mining industry is intensely competitive and we compete with many companies possessing greater financial and technical resources than us. Since mines have a limited life, we must compete with others who seek mineral reserves through the acquisition of new properties. In addition, we also compete for the technical expertise to find, develop, and operate such properties, the labour to operate the properties, and the capital for the purpose of funding such properties. Many competitors not only explore for and mine base metals, but conduct refining and marketing operations on a global basis. Such competition may result in us being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund our operations and develop our properties. We also compete with manufacturers of substitute materials or products for which zinc and copper are typically used. Existing or future competition in the mining industry could materially adversely affect our prospects for mineral exploration and success in the future.

Increased energy prices could adversely affect our operations.

Mining operations and facilities are intensive users of electricity and carbon based fuels. Energy prices can be affected by numerous factors beyond our control, including global and regional supply and demand, political and economic conditions, and applicable regulatory regimes. The prices of various sources of energy may increase significantly from current levels. An increase in energy prices could materially adversely affect our results of operations and financial condition.

Our revenues will be dependent on our metal production; sustaining current production levels or increasing our mineral production depends on our ability to bring new mines into production and to expand mineral reserves at existing mines.

We generate revenues primarily through the production and sale of metals. Subject to any future expansion or other development, production from existing operations at the HudBay Mines and Balmat (once in production) is expected to decline over the life of mine. In addition, these production estimates and the life-of-mine estimates included in this AIF may vary materially from the actual production from, or productive life of, the subject mines because the feasibility of mining a mineral deposit is largely dependent on market conditions, the regulatory environment, and available technology. As a result, our ability to maintain our current production or increase our annual production of metals and generate revenues therefrom will depend significantly upon our ability to discover or acquire and to successfully bring new mines into production and to expand mineral reserves at existing mines.

Reclamation and mine closure costs could adversely affect our cash flow from operations.

In view of the uncertainties concerning future removal and site restoration costs on our properties including those held by HBMS, the ultimate timing of and costs for future removal and site restoration could differ from current estimates. Our estimates for this future liability are subject to change based on amendments to applicable laws and legislation, the nature of ongoing operations and technological innovations. The recent evaluation of closure and reclamation costs has been submitted to the Governments of Manitoba and Saskatchewan. There is no guarantee that either or both governments will accept this evaluation. Any future changes to our reclamation and mine closure costs (either in our estimates or in the actual costs) could have a material and adverse effect on our future operating results.

In addition, regulatory authorities in various jurisdictions require us to post financial assurances to secure in whole or in part future reclamation and restoration obligations in such jurisdictions. The amount and nature of the financial assurances are dependent upon a number of factors, including our financial condition and reclamation cost estimates. Changes to these amounts, as well as the nature of the collateral to be provided, could significantly increase our costs, making the maintenance and development of existing and new mines less economically feasible. Currently, the security that we provide to the governments of the Provinces of Saskatchewan and Manitoba consists of the equipment, buildings and fixtures located at the HBMS metallurgical complex. We have also provided additional security in the form of letters of credit in the aggregate amount of $13 million. However, the Provinces may require further financial assurances. To the extent that the value of the collateral provided to the Provinces is or becomes insufficient to cover the amount of financial assurance we are required to post, we would be required to replace or supplement the existing security with more expensive forms of security, which might include cash deposits, which would reduce our cash available for operations and financing activities. There can be no guarantee that we will be able to maintain or add to our current level of financial assurance. We may not have sufficient capital resources to further supplement our existing security.

Although we accrue for future closure costs, we do not reserve cash in respect of these obligations or otherwise fund these obligations in advance. As a result, we will have significant cash costs when we are required to close and restore mine sites that may, among other things, affect our ability to satisfy our obligations under our indebtedness or other contractual commitments. Given the significance of these cash costs, we may not be able to fund them with cash from our operating activities or other available capital resources. We cannot assure you that we will be able to obtain financing on satisfactory terms to fund these costs. If we are unable to fund the removal and site restoration costs, regulatory authorities may foreclose on the collateral securing those obligations. We may not have sufficient capital resources to further supplement our existing security. Additionally, any capital resources that we do utilize for this purpose will reduce the resources available for our operations and commitments, including satisfying our obligations on the Notes.

The temporary shutdown of any of our operations could expose us to significant costs and adversely affect our access to skilled labour.

From time to time, we may have to temporarily shutdown our copper smelting and/or zinc refining operations or one or more of our mines if they are no longer considered commercially viable. There are a number of factors that may cause our operations to be no longer commercially viable, many of which are beyond our control. These factors include adverse changes in interest rates or currency exchange rates, decreases in the price of zinc or copper or the market rates for treatment and refining charges, increases in concentrate transportation costs, and increases in labour costs. During such temporary shutdowns, we will have to continue to expend capital to maintain the plant and equipment. We may also incur significant labour costs as a result of a temporary shutdown if we are required to give employees notice prior to any layoff or to pay severance for any extended layoff. Furthermore, temporary shutdowns may adversely affect our future access to skilled labour, as employees who are laid off may seek employment elsewhere. As well, if the copper smelting and/or zinc refining operations are shutdown for an extended period of time, we may be required to engage in environmental remediation of the plant sites, which would require us to incur additional costs. Given the costs involved in a temporary shutdown of our operations, we may instead choose to continue to operate those operations at a loss. This could have a material adverse effect on our results of operations and financial conditions.

We are required to obtain government permits in order to conduct mining operations.

Government approvals and permits are currently required in connection with all of our operations and further approvals and permits may be required in the future. We must obtain and maintain a variety of licences and permits including air quality control, water, electrical and municipal licences. The duration and success of our efforts to obtain permits are contingent upon many variables outside of our control. Obtaining governmental permits may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary permits will be obtained and, if obtained, that the costs involved will not exceed our estimates or that we will be able to maintain such permits. To the extent such approvals are required and not obtained or maintained, our operations may be curtailed or we may be prohibited from proceeding with planned exploration, development, or operation of mineral properties.

Disruption of transportation services or increased transportation costs could have a material adverse effect on our business, financial condition and results of operations.

At the HudBay Mines, we are dependent upon a single railway and certain short-line rail networks to transport purchased concentrate to our Flin Flon metallurgical complex and to transport products from the Flin Flon metallurgical complex for further processing and to our customers. We may have similar dependencies at future mining and processing operations. Disruption of these transportation services due to weather-related problems, strikes, lock-outs or other events could have a material adverse effect on our operations. If transportation for our products becomes unavailable, our ability to market our products could suffer. In addition, increases in our transportation costs relative to those of our competitors could make our operations less competitive and could affect our profitability.

We are dependent upon key management personnel and executives.

We are dependent upon a number of key management personnel, including the services of certain key employees. Our ability to manage activities, and hence our success, will depend in large part on the efforts of these individuals. We face intense competition for qualified personnel, and there can be no assurance that we will be able to attract and retain such personnel. We do not maintain "key person" life insurance. Accordingly, the loss of the services of one or more of such key management personnel could have a material adverse effect on us.

Our business will depend on good relations with our employees.

Production at our mining operations depends on the efforts of our employees. Although certain HBMS unionized employees have agreed to "no-strike" clauses in their collective bargaining agreements, which run until 2012, there can be no assurance that our business will not suffer from work stoppages. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in whose jurisdictions we carry on business. Changes in such legislation or otherwise in our relationship with our employees may result in strikes, lockouts or other work stoppages, any of which could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to credit risk from customers of our copper and precious minerals, as well as through CMM customers, by providing credit in the normal course of operations and in connection with certain derivative contracts.

We provide credit to purchasers of our copper and precious minerals and CMM provides credit to its customers in the normal course of its operations. Although both CMM and us mitigate credit risk by carrying out credit evaluations on our customers, making a significant portion of sales on a cash basis and maintaining insurance on accounts receivable, if customers default on the credit extended to them, results of operations could be materially adversely affected. Further, we enter into derivative contracts for which we do not obtain collateral or other security. In the event of non-performance by counterparties in connection with such derivative contracts, we will be further exposed to credit risk.

INDUSTRY REGULATION

Land and Mineral Rights

Our mining interests are governed by the laws of the jurisdiction in which the mining interests are situated. We have interests in mining interests that are held as freehold titles, mine or mineral claims, mineral leases, mining leases, quarrying dispositions, quarry mineral leases, quarry permits, sand and gravel leases, surface leases, surface permits, Order-in-Council leases, leases of Crown lands or minerals, general permits relating to Crown lands and exploration licences. The rights applicable to such interests are described, circumscribed, limited, restricted and qualified by the laws of the jurisdiction applicable to such interests, and by the terms of the grant of such interests. Royalty payments may be required to be paid on mineral leases.

Manitoba

Manitoba mineral leases are granted, under *The Mines and Minerals Act* (Manitoba), generally for terms of 21 years. Upon application, a lessee is entitled to the renewal of the lease for further terms of 21 years if, at the time of the application for renewal, the lessee is in compliance with *The Mines and Minerals Act* and the terms and conditions of the mineral lease.

The annual lease rental rate for a mineral lease in production is currently $8.00 per hectare per year. There are no other charges required to maintain the leases. Prior to obtaining a mineral lease in Manitoba, the applicant must first obtain a mineral prospecting licence and a mineral exploration licence. The cost associated with a mineral prospecting licence, if issued to a corporation, is $200. The mineral exploration licence application fee is $300 with a deposit of $0.50 per hectare also required.

A mineral lease includes and is subject to a reserve, in favour of the Province, of royalties in respect of minerals that are produced under the lease. The royalty reserved to the Province in respect of a mineral must be calculated in accordance with the regulations. However, no royalties will be paid in respect of a mineral for which a royalty would otherwise be payable, if a tax is payable under *The Mining Tax Act* (Manitoba).

Saskatchewan

Saskatchewan leases for provincial mineral lands are granted under *The Crown Minerals Act* (Saskatchewan) and *The Mineral Disposition Regulations, 1986* (Saskatchewan). The term of a lease is ten years, renewable for a further term of ten years if the holder has complied with *The Crown Minerals Act* (Saskatchewan) and associated regulations. Annual license fees of $25 per hectare are payable in each of the first ten years of the lease, with a minimum of $400 per lease; $50 per hectare in years 11 through 20 of a renewed lease, with a minimum of $800 per lease; and $75 per hectare thereafter, with a minimum of $1,200 per lease. Prior to obtaining a mineral lease in Saskatchewan, the applicant must first apply for a permit or claim to explore provincial mineral lands. The costs associated with a permit to explore provincial mineral lands include: a recording fee of $0.15 per hectare with a minimum of $1,500 and a maximum of $7,500, a cash deposit of $15,000, and expenditure requirements of $1.25 per hectare in the first permit year and $4.00 per hectare in subsequent permit years. The term of the permit is two years and may not be renewed. A permit may be converted into a claim. The costs associated with a claim to explore provincial mineral lands include: a recording fee of $0.30 per hectare with a minimum of $10; expenditure requirements of $12 per hectare in claim years 2 through 10, with a minimum of $192 per claim; and $25 per hectare for each claim year after year 10, with a minimum of $400 per claim. A claim may be converted into a lease.

Royalty payments are payable under a lease of provincial mineral land upon or in respect of all materials produced, saved or recovered from, or allocated under a unitization agreement to any provincial mineral lands.

Environmental Regulation

The mining industry is subject to extensive regulation by federal, provincial and local authorities as to matters including, but not limited to:

- employee health and safety;
- air quality;
- water quality and availability;
- the protection and enhancement of the environment (including the protection of plants and wildlife);
- the generation, handling, use, storage, transportation, release, disposal and clean-up of regulated materials, including wastes; and
- the reclamation and restoration of mining properties after mining is completed.

Our mining operations are regulated primarily by provincial and state legislation, although we must also comply with applicable federal legislation and local by-laws.

The jurisdictions in which we operate have stringent environmental legislation and requirements. These laws require regulatory approval of many aspects of our mining and production operations. The construction, development and operation of a mine entails compliance with applicable environmental legislation and the obtaining of various permits, licences and approvals from various governmental authorities, which can include costly and time consuming environmental impact assessments. In addition, legislation requires that sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of environmental legislation (including permits, licences and approvals) may result in the imposition of fines, other penalties, clean-up orders or the interruption of our activities, which could have a material adverse effect on our operations.

Provincial Environmental Legislation

In general, Manitoba and Saskatchewan have similar environmental legislation. Both Manitoba and Saskatchewan have requirements for environmental impact assessments of new projects or major expansions. These assessments typically involve extensive stakeholder consultation, including public advertising and input. Each province also has its own legislation with respect to heritage and cultural resources, the handling and transportation of dangerous goods and site remediation and reclamation.

In Manitoba, air emissions from our metallurgical complex are governed by the *Inco Limited and Hudson Bay Mining and Smelting Co., Limited Smelter Complex Regulation* (the "HBMS Regulation"), made under *The Environment Act* (Manitoba) (the "EA"). The HBMS Regulation sets maximum levels of sulphur dioxide emissions and particulate emissions that HBMS may emit. The HBMS Regulation also sets requirements for ambient air monitoring, stack sampling, and particulate emission monitoring and measurement.

Under *The Mines and Minerals Act* (Manitoba), before the holder of a mineral lease in Manitoba may commence mining, the holder must first submit a mine closure plan. A mine closure plan sets out a program for protection of the environment during the life of a project and for rehabilitation of the project site upon closing of the project, which includes the provision of security to the Province for performance of rehabilitation work in accordance with an approved mine closure plan.

In Saskatchewan, environmental matters relating to mining operations are governed primarily by *The Environmental Management and Protection Act, 2002* (Saskatchewan) (the "EMPA") and the *Mineral Industry Environmental Protection Regulations, 1996* (Saskatchewan) (the "MIEP") made under the EMPA. The EMPA and its regulations require permits and approvals for the operation of any facility that discharges a pollutant into the environment. Under the MIEP, the Saskatchewan government also regulates the decommissioning, abandonment and reclamation of a mine or operation and requires that an assurance fund be established to ensure the completion of the decommissioning and reclamation of the mining site. We have entered into security agreements in favour of the Provinces of Saskatchewan and Manitoba, whereby we have pledged certain HBMS mining assets as collateral to cover decommissioning costs.

In Ontario, environmental matters related to the Zochem plant are primarily governed by the *Environmental Protection Act* (Ontario) ("EPA"), *Ontario Water Resources Act* ("OWRA") and the regulations thereunder. The EPA regulates discharges to the natural environment including air, land, noise, odour and vibration. The EPA also regulates waste handling, storage, disposal and transportation. The OWRA regulates discharges to surface and ground water. Zochem may be required under either or both the EPA and the OWRA to obtain certain permits and certificates relating to, among other things, the storage of hazardous products, storm water management and water use. Both the EPA and the OWRA provide for penalties and clean-up orders to be levied in the event of non-compliant discharges.

Federal Environmental Legislation

We must comply with the *Canadian Environmental Protection Act, 1999* ("CEPA"), which regulates certain restricted and prohibited substances, and can require the preparation of pollution prevention plans. Emissions to water from our mining operations are regulated by the MMER. On September 25, 2004, the Canadian federal government issued a proposed notice requiring the preparation and implementation of pollution prevention plans in respect of specified toxic substances released from base metals smelters and refineries and zinc plants, including our metallurgical complex. The proposed notice would set target emissions for mercury, sulphur dioxide and particulate matter below our current emission levels.

The federal *Canadian Environmental Assessment Act* ("CEAA") requires that an environmental impact assessment be conducted with respect to certain proposed projects. Projects that are subject to CEAA include projects requiring the disposition of federal lands and projects requiring federal approvals.

Zinc and copper mining frequently involves crossing, impounding, diverting and using surface waters. Such activities can require approval under federal legislation, such as the *Fisheries Act* (Canada) for the construction of a project that may result in the harmful alteration of fish habitat, or the *Navigable Waters Protection Act* (Canada) if the water course is navigable by watercraft.

U.S. Legislation

Our United States mining and exploration activities are subject to various federal, state and local laws and regulations governing the protection of the environment, waste disposal, use of toxic substances, mine and worker health and safety and other matters, including the *Clean Air Act*, the *Clean Water Act*, the *Resource Conservation and Recovery Act* , *the Comprehensive Environmental Response*, *Compensation and Liability Act*, *the Emergency Planning and Community Right-to-Know Act* , *the Endangered Species Act*, the *Federal Land Policy and Management Act*, the *National Environmental Policy Act,* and related New York State laws. These laws and regulations are complex, continuously evolving and have tended to become more stringent over time, and typically require us to maintain various federal and state air, water quality and mine reclamation permits. Failure to comply with applicable environmental and health and safety laws, regulations and permits can result in injunctions, damages, suspension or revocation of permits and the imposition of penalties.

Regulatory approval of a detailed plan of operations and a comprehensive environmental impact assessment is required prior to initiating mining or processing activities or for any substantive change to previously approved plans. In order to conduct mining operations, we will be required to obtain performance bonds related to environmental permit compliance. These bonds may take the form of cash deposits or, if available, could be provided by outside insurance policies. We may be required to prepare and present to federal, state, or local authorities with data pertaining to the effect or impact that any proposed exploration or mining activity may have upon the environment. All requirements imposed by any such authorities may be costly and time-consuming and may delay commencement or continuation of exploration or production operations. In addition, specific statutory and regulatory requirements and standards must be met throughout the life of the mining or processing operations in regard to air quality, water quality, fisheries and wildlife protection, archaeological and cultural resources, solid and hazardous waste management and disposal, the management and transportation of hazardous chemicals, toxic substances, noise, community right-to-know, land use, and reclamation. We are currently in compliance in all material respects with all applicable environmental laws and regulations.

We own or operate properties, or have previously owned or operated property, used for industrial purposes. Use of these properties may subject us to potential material liabilities relating to the investigation and cleanup of contaminants and claims alleging personal injury or property damage as the result of exposure to, or release of, hazardous substances.

We are also required to comply with the safety and health standards of the New York Department of Labor as they relate to mine safety and training. We also participate in the Mine Safety and Health Administration program in an effort to reduce the incidence and severity of lost time and other non-fatal injuries to our mine employees.

Municipal By-laws

We are also subject to local laws, including by-laws passed by local municipalities relating to local land use, rural road closures, storm run-off and sanitary discharges and nuisance situations.

Kyoto Protocol

The processing of zinc and copper results in the production of various combustion products including carbon compounds. Canada, as a party to the *United Nations Framework Convention on Climate Change* (the "Convention") and the subsequent implementation protocol that was adopted in 1997 (known as the "Kyoto Protocol"), has stated its intention to reduce overall greenhouse gas emissions to 94% of 1990 levels by no later than 2012. One of the greenhouse gases of concern is carbon dioxide, which results from zinc and copper production. Many other countries are also party to the Convention and the Kyoto Protocol and have similar intentions to limit greenhouse gas emissions. The Kyoto Protocol came into effect in Canada in February, 2005.

Environmental Management and Compliance

We have established a comprehensive environmental management program directed at environmental protection. The program consists of an environmental policy, codes of practice, regular audits, the integration of environmental procedures with operating procedures, employee training and emergency prevention and response procedures.

We believe that we are in material compliance with all applicable environmental legislation. We believe that all approvals currently required to conduct our current mining operations have been obtained. Given the nature of the extensive and comprehensive regulatory requirements, violations during mining operations inevitably occur from time to time. We have been cited for few environmental violations, none of which have had a material adverse effect on the environment, our ability to continue any operation or on our financial condition.

We may be required to prepare and present to federal, provincial or local authorities data relating to the impact that a proposed development or existing zinc and copper mine may have on the environment. Such requirements could prove costly and time-consuming and could delay commencing and continuing exploration or production operations.

Future legislation and administrative regulations may further emphasize the protection and enhancement of the environment and, as a consequence, our activities may be even more closely regulated. Such legislation and changes to legislation, as well as future interpretations of laws and increased enforcement, may result in increased capital and/or operating costs as well as delays, interruptions or a termination of operations, the extent of which cannot be predicted.

Health and Safety and Labour Regulations

The *Act Respecting Hudson Bay Mining and Smelting Co., Limited* (Canada) was enacted in 1947, placing HBMS under federal jurisdiction. As a result, HBMS is governed by federal labour legislation and must report annually under the *Employment Equity Act* (Canada).

The *Act Respecting Hudson Bay Mining and Smelting Co., Limited* was amended to delegate safety and health matters to the Manitoba government and, as a result, the following pieces of Manitoba legislation apply to HBMS: *The Workplace Safety and Health* Act (Manitoba), *The Manitoba Hydro Act* (Manitoba), *The Fires and Prevention and Emergency Response Act* (Manitoba), *The Gas and Oil Burner Act* (Manitoba), *The Elevator Act* (Manitoba) and *The Steam and Pressure Plants Act* (Manitoba). As a result, generally, labour matters are regulated federally and workplace safety and health is regulated provincially.

Aboriginal Rights

Canadian courts have recognized that aboriginal peoples may continue to have unenforced rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with those rights. These rights may vary from limited rights of use for traditional purposes to a right of aboriginal title and will depend upon, among other things, the nature and extent of prior aboriginal use and occupation. The courts have encouraged the federal and provincial governments and aboriginal peoples to resolve rights claims through negotiation of treaties. In Manitoba and Saskatchewan there are many treaties in place. Aboriginal rights and claims are currently handled primarily under the terms of those treaties.

Electric Utility Industry

The electric utility industry is subject to extensive regulation regarding the environmental impact of electricity generation activities. Future legislation changes could increase the price at which electrical power is available to us and, as a result, could increase our costs of zinc and copper production.

MINERAL POTENTIAL OF OUR MATERIAL PROPERTIES

Our material properties are the HudBay Mines and the Balmat mine. At this time, only the HudBay Mines are producing. We have announced our intention to reopen the Balmat mine.

HudBay Mines

Mineral Reserves and Mineral Resources

The measured and indicated mineral resource estimates were prepared under the supervision of Kim Lau, BSc. P.Geo., who is employed by HBMS as Superintendent, Mining Technical Services and who is a Qualified Person under *National Instrument 43-101 Standards of Disclosure for Mineral Projects* ("NI 43-101"). The mineral reserve estimates as at January 1, 2006 have been prepared under the supervision of Gerald Beauchamp, B.Sc., P.Eng., who is employed by HBMS as Senior Mines Analyst and who is a Qualified Person under NI 43-101.

The categorization of mineral resource is determined in a twelve step process, which includes determination of the integrity and validation of the data collected, including confirmation of specific gravity, assay results and methods of data recording. The process also includes determining the appropriate geological model, selection of data and the application of statistics models including probability plots and restrictive kriging to establish continuity and model validation. The resultant estimates of measured and indicated mineral resources are converted to proven and probable mineral reserves by the application of mining dilution and recovery, as well as the determination of economic viability using historical operating costs. Other factors such as depletion from production are applied as appropriate.

Estimate of HudBay Mineral Reserves (as at January 1, 2006)[1][2]

	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Trout Lake					
Proven	1,433,000	1.0	11.1	1.4	4.7
Probable	1,058,000	1.7	20.5	2.5	4.0
777					
Proven	3,474,000	2.5	28.4	2.4	4.7
Probable	12,261,000	2.1	25.7	2.5	4.4
Chisel North					
Proven	661,000	—	—	—	8.9
Probable	761,000	—	—	—	8.4
Balmat					
Proven	686,000	—	—	—	10.6
Probable	1,023,000	—	—	—	11.4
Total Proven	**6,254,000**	**1.6**	**18.3**	**1.6**	**5.8**
Total Probable	**15,103,000**	**1.8**	**22.3**	**2.2**	**5.0**
Total Mineral Reserve	**21,357,000**	**1.8**	**21.1**	**2.0**	**5.3**

(1) The zinc price used for mineral reserve estimation was US$0.52 per pound, the copper price was US$0.91 per pound, the gold price was US$400 per ounce and the silver price was US$6.00 per ounce.

(2) The estimate as at January 1, 2006 was prepared in accordance with NI 43-101 and the Canadian Institute on Mining, Metallurgy and Petroleum "CIM Standards on Mineral Resources and Reserves: Definitions and Guidelines"

We have an estimated 3.66 million tonnes of inferred mineral resources, grading 5.2% zinc and 1.3% copper. Mineral resources do not have demonstrated economic viability.

Cautionary note to U.S. investors concerning estimates of inferred mineral resources. Above, we use the term "inferred resources". We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. "Inferred resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. **U.S. investors are cautioned not to assume that part of all of an inferred mineral resource exists, or is economically or legally minable.**

DIVIDENDS

We have never paid a dividend on the Common Shares and do not expect to do so in the foreseeable future. The actual timing, payment and amount of any dividends paid by us will be determined by the board of directors from time to time based upon, among other things, our cash flow, results of operations and financial condition, our need for funds to finance ongoing operations and such other business considerations as the board of directors considers relevant.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

We are authorized to issue an unlimited number of Common Shares of which there were 85,631,503 issued and outstanding as of March 20, 2006.

Holders of Common Shares are entitled to receive notice of any meetings of our shareholders, to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro-rata basis such dividends, if any, as and when declared by the Company's board of directors at its discretion from funds legally available therefor and upon our liquidation, dissolution or winding up are entitled to receive on a pro-rata basis our net assets after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro-rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Preference Shares

We are authorized to issue an unlimited number of Preference Shares, none of which were issued and outstanding as of March 20, 2006.

Preference Shares may from time to time be issued and the directors may fix the designation, rights, privileges, restrictions and conditions attaching to any series of Preference Shares. Preference Shares shall be entitled to preference over the Common Shares and over any other of our shares ranking junior to the Preference Shares with respect to the payment of dividends and the distribution of assets or return of capital in the event of our liquidation, dissolution or winding up or any other return of capital or distribution of our assets among our shareholders for the purpose of winding up our affairs. Preference Shares may be convertible into Common Shares at such rate and upon such basis as the directors in their discretion may determine. No holder of Preference Shares will be entitled to receive notice of, attend, be represented at or vote at any annual or special meeting, unless the meeting is convened to consider our winding up, amalgamation or the sale of all or substantially all of our assets, in which case each holder of Preference Shares will be entitled to one vote in respect of each Preference Share held. Holders of Preference Shares will not be entitled to vote or have rights of dissent in respect of any resolution to, among other things, amend our articles to increase or decrease the

maximum number of authorized Preference Shares, increase or decrease the maximum number of any class of shares having rights or privileges equal or superior to the Preference Shares, exchange, reclassify or cancel Preference Shares, or create a new class of shares equal to or superior to the Preference Shares.

Warrants

The Warrants were created and issued pursuant to a warrant indenture (the "Warrant Indenture") between us and Equity Transfer Services Inc., as warrant agent thereunder (the "Warrant Agent"). The following summary of certain provisions of the Warrant Indenture is not complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture.

Every 30 Warrants entitle the holder to purchase one Common Share at a price of $3.15. The exercise price and the number of Common Shares issuable upon exercise are both subject to standard anti-dilution provisions. Warrants are exercisable at any time prior to 5:00 p.m. (Toronto time) on December 21, 2009, after which time the Warrants will expire and become null and void. Under the Warrant Indenture, we are entitled to purchase in the market, by private contract or otherwise, all or any of the Warrants then outstanding, and any Warrants so purchased will be cancelled.

No fractional Common Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or pre-emptive rights or any other rights that a holder of Common Shares would have.

As of March 20, 2006, we had an aggregate of 1,027,756,923 Warrants issued and outstanding, which were exercisable for approximately 34,258,544 Common Shares. In addition to the Warrants, we have other share purchase warrants outstanding that are not listed on any stock exchange. As at March 20, 2006, we had an aggregate of 46,433,234 share purchase warrants outstanding, which were exercisable for an aggregate of approximately 1,547,774 Common Shares (and a further 992 share purchase warrants) at prices ranging from $1.50 per Common Share to $6.00 per Common Share and with expiry dates ranging from March 31, 2006 to December 21, 2006.

Rights

The fundamental objectives of the shareholder rights plan (the "Rights Plan"), implemented under the terms of a shareholder rights plan agreement dated as of November 9, 2004, are to provide adequate time for our board of directors and shareholders to assess an unsolicited take-over bid for us, to provide the board of directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made, and to provide shareholders with an equal opportunity to participate in a take-over bid.

One Right has been issued by us in respect of each Common Share that is currently outstanding, and one Right will be issued in respect of each Common Share issued during the balance of the term of the Rights Plan (which term expires on November 9, 2007) prior to the Separation Time, as described below.

The Rights will separate from the Common Shares and will be exercisable ten trading days (the "Separation Time") after a person has acquired, or commences a take-over bid to acquire, 20% or more of the Common Shares, other than by an acquisition pursuant to a take-over bid permitted by the Rights Plan (a "Permitted Bid"). The acquisition by any person (an "Acquiring Person") of 20% or more of the Common Shares, other than by way of a Permitted Bid, is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Ten trading days after the occurrence of the Flip-in Event, each Right (other than those held by the Acquiring Person), will permit the purchase of $180 worth of Common Shares for $90.

For the purposes of the Rights Plan the requirements for a Permitted Bid include the following:

(a) the take-over bid must be made by way of a take-over bid circular;

(b) the take-over bid must be made to all shareholders, other than the bidder;

(c) the take-over bid must be outstanding for a minimum period of 60 days and Common Shares tendered pursuant to the take-over bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50% of the Common Shares held by shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the "Independent Shareholders"), have been tendered to the take-over bid and not withdrawn;

(d) if more than 50% of the Common Shares held by Independent Shareholders are tendered to the take-over bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of Common Shares for an additional ten days from the date of such public announcement;

(e) the take-over bid must permit Common Shares to be deposited pursuant to the take-over bid, unless such take-over bid is withdrawn, at any time prior to the date Common Shares are first taken up and paid for; and

(f) the take-over bid must provide that any Common Shares deposited pursuant to the take-over bid may be withdrawn until taken up and paid for.

The Rights Plan also allows for a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days.

MARKET FOR SECURITIES

Price Range And Trading Volume

Our Common Shares are listed on the TSX under the symbol "HBM". The volume of trading and the high and low closing price of our Common Shares, as adjusted for the Consolidation, during the periods indicated are set forth in the following table.

Period	High ($)	Low ($)	Volume (Shares)
2005			
January	$ 2.75	$ 1.86	19,053,255
February	$ 3.74	$ 2.52	30,719,083
March	$ 4.35	$ 3.14	27,470,726
April	$ 3.77	$ 2.55	20,102,195
May	$ 3.07	$ 2.50	11,739,090
June	$ 2.99	$ 2.54	9,613,077
July	$ 2.91	$ 2.50	9,696,111
August	$ 3.49	$ 2.82	25,106,956
September	$ 3.60	$ 3.02	16,723,203
October	$ 3.84	$ 3.25	15,107,922
November	$ 4.20	$ 3.38	15,017,939
December	$ 5.90	$ 4.11	21,358,315

On March 20, 2006, the last day on which the Common Shares traded prior to the date of this AIF, the closing price of our Common Shares on the TSX was $8.20 per share.

Our Warrants are listed on the TSX under the symbol "HBM.WT". The volume of trading and the high and low closing price of our Warrants during the periods indicated are set forth in the following table.

Period	High ($)	Low ($)	Volume (Shares)
2005			
January	$ 0.045	$ 0.025	173,795,184
February	$ 0.065	$ 0.035	162,760,679
March	$ 0.085	$ 0.035	125,529,595
April	$ 0.06	$ 0.035	156,084,507
May	$ 0.045	$ 0.035	61,611,315
June	$ 0.04	$ 0.03	30,976,333
July	$ 0.04	$ 0.03	38,155,621
August	$ 0.05	$ 0.035	139,806,371
September	$ 0.05	$ 0.035	31,852,219
October	$ 0.05	$ 0.04	104,297,461
November	$ 0.06	$ 0.04	105,227,034
December	$ 0.105	$ 0.055	233,053,514

On March 20, 2006, the last day on which the Warrants traded prior to the date of their AIF, the closing price of the Warrants on the TSX was $0.17 per Warrant.

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, position and principal occupation of each person who currently is one of our directors and/or executive officers.

Name and Municipality of Residence	Position with the Company	Principal Occupation
ALLEN J. PALMIERE[2][3][4][5] Toronto, Ontario	Chairman and director since December 21, 2004[1]	Executive Chairman, Barplats Investments Limited; President, Chief Executive Officer and Director of Silk Road Resources Ltd.
RICHARD W. BRISSENDEN[2][5] Toronto, Ontario	Director since June 13, 2003[1]	Chairman of Excellon Resources Inc.
PETER JONES Winnipeg, Manitoba	Director[1], President and Chief Executive Officer	President and Chief Executive Officer of the Company
NORMAN ANDERSON[3][4] Vancouver, British Columbia	Director since December 21, 2004[1]	President of Anderson & Associates
JAMES W. ASHCROFT[3][4][5] Sudbury, Ontario	Director since December 21, 2004[1]	Mining Consultant
RONALD P. GAGEL[2] Mississauga, Ontario	Director since May 4, 2005	Vice President and Chief Financial Officer of FNX Mining Company Inc.
H. RUSSELL ROOD Flin Flon, Manitoba	President, Mining Division	President, Mining Division of the Company
ALAN HAIR Flin Flon, Manitoba	Vice President, Metallurgy, Safety, Health and Environment	Vice President, Metallurgy, Safety, Health and Environment of the Company
JEFFREY A. SWINOGA Winnipeg, Manitoba	Vice President and Chief Financial Officer	Vice President and Chief Financial Officer of the Company
BRIAN D. GORDON Winnipeg, Manitoba	Vice President and General Counsel	Vice President and General Counsel of the Company
TOM A. GOODMAN Flin Flon, Manitoba	Vice President, Technical Services and Human Resources	Vice President, Technical Services and Human Resources of the Company

Notes:

(1) The term of office for each director of the Company will expire upon the completion of the next annual meeting of shareholders of the Company.

(2) Member of the Audit Committee. Mr. Gagel is the Chair of the Committee.

(3) Member of the Compensation Committee. Mr. Palmiere is the Chair of the Committee.

(4) Member of the Corporate Governance and Nominating Committee. Mr. Palmiere is the Chair of the Committee.

(5) Member of the Environmental, Health and Safety Committee. Mr. Ashcroft is the Chair of the Committee.

As at March 20, 2006, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 28,866 Common Shares, representing less than 1% of the total number of Common Shares outstanding.

Each of the foregoing individuals has held his present principal occupation other office or position with the same firm set opposite his name for the past five years, except for: Mr. Palmiere who, from October 1993 to May 2003, was chief financial officer of Zemex Corporation; and since October 2005 has been Executive Chairman of Barplats Investments Limited; Mr. Gagel, who, from January 1999 to December 2004, was Vice-President and Chief Financial Officer of Aur Resources Inc.; Mr. Jones, who, from 1995 to 2002, held various positions other than President and Chief Executive Officer with the Company, Mr. Swinoga who, from 1998 to 2005, held various positions at Barrick Corporation; and Mr. Goodman, who managed a copper smelting and refining company for the Anglo American group in Zambia from September 2001 to February 2003.

The following is a brief biography of each individual who currently is one of our directors and/or officers.

Allen J. Palmiere — *Chairman and Director.* Mr. Palmiere is a Chartered Accountant, and has served in senior management financial supervisory capacities in the mining industry most of his career. In the past, Mr. Palmiere has been Treasurer of Northgate Exploration Ltd.; President, Chief Executive Officer and Chief Financial Officer of Breakwater Resources Ltd.; and Chief Financial Officer of Zemex Corporation. He is a member of the board of directors of Constellation Copper Corporation and the Chair of its audit committee. He is currently the President, Chief Executive Officer and a director of Silk Road Resources Ltd. and has served as Executive Chairman of Barplats Investments Limited since 2005.

Richard Brissenden — *Director.* Mr. Brissenden is a Chartered Accountant. He has been Chairman of Excellon Resources Inc., a mineral exploration and development company, since September 1990. Since February 1996, he has been President of Regal Consolidated Ventures Limited, a mineral exploration and development company. Mr. Brissenden also serves as a director of several other public companies.

Peter R. Jones, P. Eng. — *President, Chief Executive Officer and Director.* Mr. Jones has been the President and Chief Executive Officer of HBMS since 2002. He joined HBMS in 1995 as Vice President Mining and has subsequently held the positions of Senior Vice President Projects and President Metallurgical Division. As Senior Vice President Projects he was responsible for the 777 Project. Prior to joining HBMS, he held senior positions in operations and projects with Cominco Limited, Cape Breton Development Corporation and Cominco Engineering Services. He has a broad background having worked in potash mines, coal mines, open pit and underground lead zinc mines, gold mines and has directed extensive feasibility studies and management services for a wide range of clients throughout the world. Mr. Jones graduated from the Camborne School of Mines, United Kingdom in 1969 and the Banff School of Advanced Management in 1984. Mr. Jones is the prior President of the Mining Association of Manitoba and a Director of the Mining Association of Canada.

Norman Anderson, P.Eng. — *Director.* Mr. Anderson has been involved in the mining industry for over 50 years and is the former Chairman and Chief Executive Officer of Cominco Ltd. Currently, Mr. Anderson is President of the management consulting firm of Anderson & Associates. He has been active in consulting, particularly due diligence consulting and evaluations for financial institutions and mining companies, since 1987. He holds a Bachelor of Science in Geological Engineering from the University of Manitoba in Winnipeg, Manitoba. Mr. Anderson serves on a number of boards of directors of public companies.

James W. Aschroft, P.Eng — *Director.* Mr. Ashcroft is the President of J.W. Ashcroft & Associates, a mining consulting company. As a former President of the Ontario division of INCO Limited, he managed a vertically-integrated division of the mining company, which during his tenure completed a $270 million mining project, improved its safety and environment record and maintained stable labour relations. He received a national diploma in engineering at Wigan Mining College in Lancashire, England and has completed an Executive Management Training Course at the Richard Ivey School of Business. Mr. Ashcroft serves on a number of boards of directors and, in some cases, sits on the health and environment, audit and corporate governance committees of such boards.

Ronald P. Gagel — *Director.* Mr. Gagel is a Vice President and the Chief Financial Officer of FNX Mining Company Inc. and, since 2006, has also served as Vice President and the Chief Financial Officer of International Nickel Ventures Corporation. Mr. Gagel is a chartered accountant with more than 25 years of professional experience, predominantly in the natural resources sector. From 1988 to 2004, Mr. Gagel was at Aur Resources Inc. and from

1999 to 2004 he served as Vice President and Chief Financial Officer of Aur Resources Inc. He is a director of Glencairn Gold Corporation and the Prospectors and Developers Association of Canada.

H. Russell Rood — *President, Mining Division.* Prior to joining HBMS, Mr. Rood worked for De Beers, holding various senior management positions. Mr. Rood holds a Bachelor of Civil Engineering and Bachelor of Mining Engineering degrees from the University of Witwatersrand in South Africa. He also attended a part time management program through the School of Business Leadership in Johannesburg, South Africa. Mr. Rood is a member of the South African Institute of Mining.

Alan Hair — *Vice President, Metallurgy, Safety, Health & Environment.* Since joining HBMS in 1996, Mr. Hair has held various operational management roles in the surface plants and was appointed the Vice-President, Metallurgy in early 2004. Prior to joining HBMS, Mr. Hair was Smelting Manager at MIM's zinc smelter in Avonmouth, England. He graduated from the University of Leeds, England in 1983 with a Bachelor of Science Honours degree in Mineral Engineering.

Jeffrey A. Swinoga — *Vice President and Chief Financial Officer.* Mr. Swinoga has more than 14 years of experience in finance and accounting related to the resources and finance industries. Previous to joining the Company, he was at Barrick Corporation, where he served as Director, Treasury Finance and more recently as Assistant Treasurer. Mr. Swinoga is a Chartered Accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a Master of Business Administration from the University of Toronto and a Bachelor of Arts (Honours economics) from the University of Western Ontario.

Brian D. Gordon — *Vice President and General Counsel.* Mr. Gordon obtained his Bachelor of Law degree from the University of Manitoba. Formerly a partner with a major Manitoba law firm, he joined HBMS in 1994 as director, general counsel and corporate secretary. Mr. Gordon is a member of the Law Society of Manitoba and of the Canadian Bar Association.

Tom A. Goodman — *Vice President, Technical Services and Human Resources.* Mr. Goodman is a graduate in Chemical and Metallurgical Technology from the British Columbia Institute of Technology. He has worked for HBMS for over 26 years in a wide variety of operational, technical, and management positions. He recently transferred back to HBMS after managing a copper smelting and refining company for the Anglo American group in Zambia.

Corporate Cease Trade Orders or Bankruptcies

None of our directors, officers or other members of our management is, or within the ten years prior to the date hereof has been, a director, officer, promoter or other member of management of any other issuer that, while that person was acting in the capacity of a director, officer, promoter or other member of management of that issuer, was the subject of a cease trade order or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days or was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than Mr. Brissenden, who is a director of Regal Consolidated Ventures Limited, which is subject to a cease trade order issued on June 12, 2001 due to its failure to file financial statements. Mr. Brissenden was also a director of Trenton Industries Inc., which was placed in receivership in 1995. Mr. Brissenden resigned from the board of directors of Trenton Industries Inc. immediately preceding the bankruptcy of that company.

Penalties and Sanctions

None of our directors, officers or other members of management is, or within the ten years prior to the date hereof has been (i) subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or (ii) subject to any other penalties or sanctions imposed by a court or regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

Conflict of Interest

To the best of our knowledge, and other than as disclosed herein, there are no known existing or potential conflicts of interest among us, our directors, officers or other members of management, or persons who, as a result of their outside business interests except that certain of the directors, officers, and other members of management serve as directors, officers, promoters and members of management of other public companies and therefore it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company and their duties as a director, officer, promoter or member of management of such other companies.

Our directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and we will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the *Canada Business Corporations Act* and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

AUDIT COMMITTEE DISCLOSURE

The Audit Committee is responsible for monitoring our systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents and monitoring the performance and independence of our external auditors. The committee is also responsible for reviewing our annual audited financial statements, unaudited quarterly financial statements and management's discussion and analysis of financial results of operations for both annual and interim financial statements and review of related operations prior to their approval by the full board of directors.

The Audit Committee's charter sets out its responsibilities and duties, qualifications for membership, procedures for committee member removal and appointment and reporting to our board of directors. A copy of the charter is attached hereto as Schedule "B".

Composition

The Audit Committee is comprised of three directors, all of whom are independent directors: Richard W. Brissenden, Ronald P. Gagel (Chair) and Allen J. Palmiere. In addition to being independent directors as described above, all members of our Audit Committee must meet an additional "independence" test under *Multilateral Instrument 52-110, Audit Committees* in that their directors' fees are the only compensation they, or their firms, receive from us and that they are not otherwise affiliated with us. Each member of the Audit Committee is financially literate within the meaning of Multilateral Instrument 52-110.

Relevant Educational Experience

Set out below is a description of the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member.

Richard W. Brissenden — Mr. Brissenden is a Chartered Accountant.

Ronald P. Gagel — Mr. Gagel is a Chartered Accountant.

Allen J. Palmiere — Mr. Palmiere is a Chartered Accountant.

Policy Regarding Non-Audit Services Rendered by Auditors

Pursuant to the audit committee charter, the audit committee is to pre-approve all non-audit services to be provided to us or any of our subsidiaries by our independent auditor. More generally, the audit committee is to instruct the independent auditor that the board of directors, as representatives of the shareholders, is the client of the independent auditor. The audit committee is also to review and discuss, on an annual basis, with the independent auditor all significant relationships the independent auditor has with us to determine their independence.

Remuneration of Auditors

The following table presents, by category, the fees accrued by KPMG LLP as external auditors for the Company for the fiscal period ended December 31, 2004 and for services provided to the Company during the fiscal year ended December 31, 2005 and Deloitte & Touche LLP as external auditors for the Company for the fiscal year ended December 31, 2005 and for HBMS for the fiscal years ended December 31, 2005 and 2004.

	2005		2004	
Category of Fees	**Deloitte & Touche LLP**	**KPMG LLP**	**Deloitte & Touche LLP**	**KPMG LLP**
Audit fees	$ 442,500	$ —	$ 322,263	$ 521,391
Audit related fees	293,946	36,244	479,046	—
Tax fees	—	—	4,533	3,200
All other fees	—	84,744	346,387	—

"Audit related fees" include fees for financial information presentation and certification. "Tax fees" include tax compliance services and tax advisory and planning services. "All Other Fees" include principally consultation and research services related to prospectus preparation, stock exchange listing application and acquisition activities of the Company. Management will present regular updates to the Audit Committee of the services rendered by the auditors in response to the Committee's oversight regarding external auditor independence and pre-approved service authorizations.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the Company's directors, executive officers or senior officers, nor any associate of such director, executive officer or senior officer is indebted to us or any of our subsidiaries. In addition, none of the indebtedness of these individuals to another entity has been the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding with us or any of our subsidiaries.

LEGAL PROCEEDINGS

In May 2004, a number of plaintiffs initiated an action, in the State of North Carolina, against Zochem, CMM and a number of other defendants seeking damages in an unspecified amount and alleging that they had been injured as a result of an explosion that occurred at a pharmaceutical plant. The plaintiffs have alleged that Zochem and/or CMM designed, manufactured, sold and supplied chemicals used in the manufacture of a rubber compound that were dangerous, defective and susceptible to causing explosions. HBMS has retained legal counsel in North Carolina and at this stage the likelihood of success and the materiality of this claim is not reasonably determinable.

An action has been commenced against Hudson Bay Exploration and Development Company Limited, Anglo American Exploration (Canada) Ltd. and certain employees thereof claiming a breach of confidence relating to mining claims staked by the defendants in Northern Québec. The plaintiff has alleged that the defendants misused confidential information to its detriment. The plaintiff is seeking, among other things, to have the claims transferred to the plaintiff, along with unspecified damages. Pursuant to an agreement dated December 21, 2004, Anglo American Exploration (Canada) Ltd. has agreed to indemnify and save harmless Hudson Bay Exploration and Development Company Limited from and against all losses, damages, costs and liabilities incurred under any judgment or settlement made in connection with this action.

In 1994, HBMS received $18.5 million pursuant to a litigation settlement agreement. The Canada Revenue Agency questioned HBMS' treatment of the receipt of these funds as non-taxable damages and, as a result, HBMS conformed to the Canada Revenue Agency position and then filed a notice of objection. HBMS has had discussions with the Canada Revenue Agency in this regard and has considered litigation to support its position.

HBMS has been named as a co-defendant in two actions alleging various wrongful actions committed in connection with the use and operation of the Whitesand Dam and the Island Falls Hydroelectric station (the "Hydro Projects") in Saskatchewan. The plaintiffs have claimed for an aggregate of $1 billion in compensatory damages and in excess of $100 million in punitive damages. One of HBMS' former subsidiaries constructed and operated the dam until it was transferred to SaskPower in 1981. The plaintiffs in both actions claim that the lands on which the hydroelectric facilities were built are subject to aboriginal rights. No further steps have been taken by the plaintiffs to proceed with their claims since 1995.

SaskPower has been named as a defendant in two other actions, one filed in Manitoba in 1992 and one filed in Saskatchewan in 2004. Both actions claim damages alleged as a result of the operation and use of the Hydro Projects. HBMS has not been named in those actions. However, it has recently come to our attention that SaskPower intends to take legal action against Churchill River Power Company Limited ("CRP"), formerly a wholly-owned subsidiary of HBMS, which was dissolved. SaskPower has revived CRP for the purpose of taking action for alleged breaches by CRP of its obligation under a certain Purchase and Sale Agreement made in 1981. Although HBMS and CRP may be named as a party in one of the actions, to date no steps have been taken to add HBMS or CRP as a defendant or third party in either action.

A claim has been filed against HBMS in relation to the workplace death of an employee. We understand that such a claim is statute barred pursuant to the *Workers Compensation Act.* We believe that HBMS has a good defence to this claim and that HBMS should not be held liable in respect of this claim. The Chief Medical Examiner of the Province of Manitoba has also commenced an inquest into this workplace death. The inquest is currently underway. In November 2004, the claim was denied by the Workers Compensation Board.

Except as noted above, we are not aware of any litigation outstanding, threatened or pending against us as of the date hereof that would be material to our financial condition or results of operations.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described below or as disclosed elsewhere in this AIF, none of our directors, executive officers or principal shareholders and no associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect us or any of our subsidiaries.

Financial Assistance for the Balmat Acquisition

In connection with our purchase of the Balmat Mine, St. Lawrence Zinc Company LLP, one of our subsidiaries received assistance from Frame Mining Company ("FMC"), a company controlled by our former Chief Executive Officer and a former director. FMC advanced US$1 million to our subsidiary in order for it to assume an environmental bond. Further, FMC provided security on a proposed US$4 million project loan to our subsidiary. As security for these debts, we pledged a 51% interest in our subsidiary. Under the terms of the agreement, 26% of the ownership interest held as security was released to us after the repayment of the US$1 million advanced by FMC and an additional payment of US$200,000. The remaining 25% ownership interest held as security was released in 2003 upon the final payment of US$800,000 to FMC.

Settlement of Debt

In 2003, we settled $362,724 of related party debts through the issuance of 100,756 Common Shares.

Agreements with Frame Parties

Pursuant to an agreement dated June 17, 2004 (the "June Agreement"), Frame Mining Corporation, Curraghdale Inc. and Curraghdale Corp. (collectively the "Frame Parties") sold to Gregory J. Peebles, who was then our Chairman and Chief Executive Officer, 666,666 Common Shares and 318,159 common share purchase warrants. The June Agreement provided for an aggregate purchase price of $3,600,000. Of this purchase price, $15,000 was paid on June 17, 2004, $180,000 was to be payable in twelve consecutive monthly instalments of $15,000 each with each instalment payable on the 20th day of each month, beginning on July 20, 2004 and ending on June 20, 2005 and the balance of $3,405,000 was to be payable on July 2, 2005. The outstanding balance of the purchase price was secured by a pledge of the purchased securities and recourse of the Frame Parties was limited to the purchased securities. If the purchased securities were sold prior to full payment therefor, for greater than the original $0.18 purchase price per share, or if on the day prior to the date the balance of the purchase price was to be payable, the trading price of the Common Shares exceeds $0.18 or $0.20 in the case of the warrants, the Frame Parties were entitled to receive from Mr. Peebles 20% of the excess subject to an aggregate limit of $5 million. Mr. Peebles disclosed the terms of this agreement to certain members of our board of directors on December 8, 2004.

On December 8, 2004, Mr. Peebles, the Frame Parties and Mr. Clifford Frame entered into a further agreement (the "December Agreement"). Mr. Peebles also signed the December Agreement on behalf of us although no other of our officers or directors reviewed the December Agreement prior to its execution and, accordingly, we expressed doubt concerning the binding nature of this Agreement. The December Agreement provided that Mr. Peebles was entitled to satisfy the unpaid portion of the purchase price under the June Agreement by paying $1,500,000 to the Frame Parties. Of this sum, $1,000,000 was paid upon the closing of the acquisition of HBMS and the balance of the amount was to be paid no later than January 17, 2005. In addition, the December Agreement provided that we were to pay on the closing of the Acquisition $120,000 to Frame Mining Corporation and Curraghdale Inc. to settle claims made by Curraghdale Inc. for compensation for services rendered by Mr. Clifford Frame from November 1, 2003 to April 21, 2004 in his then capacity as our Chairman and Chief Executive Officer and with respect to a claim by Frame Mining Corporation for repayment of a $10,000 loan. The December Agreement further provided that we were to make available to the Frame Parties for subscription on the Acquisition up to 20,000,000 Subscription Receipts at the offering price of $0.075 each. We made the payments and issued and sold to the Frame Parties the securities as set out in the December Agreement.

Mr. Peebles joined us, as our Chairman and Chief Executive Officer, on April 21, 2004. We entered into three arrangements with certain corporations owned or controlled by Mr. Peebles (the "Peebles Affiliates"), on April 30, 2004, which provided that such Peebles Affiliates would provide various services to us and be paid various forms of compensation in connection therewith (the "Consulting and Services Agreements"). Upon a further review of the Consulting and Services Agreements, these agreements were deemed to be inappropriate, and accordingly were terminated on November 9, 2004, but with effect as at April 30, 2004. We did not make any payments under the Consulting and Services Agreement and the parties have mutually released each other from any and all claims and liabilities thereunder.

September Private Placement

Mr. Peebles and Mr. Christopher Irwin, a former Corporate Secretary and a former director of the Company, purchased 333,333 units and 6,666 units, respectively, pursuant to the private placement completed on September 30, 2004, at a price of $1.50 per unit. In the course of reviewing our preliminary prospectus dated November 10, 2004, the Ontario Securities Commission raised concerns that these transactions occurred when Mr. Peebles and Mr. Irwin may have had material undisclosed information concerning the acquisition of HBMS that had not been generally disclosed. In response to these concerns, but without admitting any impropriety or unlawful conduct, Mr. Peebles and Mr. Irwin have returned to us the securities acquired by them in the private placement, at the original subscription price of $1.50 per unit. We have cancelled these securities.

Resignation of Gregory J. Peebles

On December 10, 2004, the mutual decision was made by us and Mr. Peebles that he should resign as our Chairman, Chief Executive Officer and a director. A severance agreement was entered into, pursuant to which we paid to Mr. Peebles the sum of $500,000 in severance and $166,666 in payment of owed employment income.

TRANSFER AGENT AND REGISTRAR

The transfer agent, registrar for the Common Shares and warrant agent for the Warrants is Equity Transfer Services Inc. at its principal offices in Toronto, Ontario.

MATERIAL CONTRACTS

The only contracts material to us entered into by us since January 1, 2002, other than in the ordinary course of business, are as follows:

1. the Balmat Acquisition Agreement referred to under the heading "General Development of the Business";

2. the Acquisition Agreement referred to under the heading "General Development of the Business — Acquisition of HBMS";

3. the shareholders' rights plan between the Company and Equity Transfer Services Inc. dated November 9, 2004 and ratified by our shareholders on December 8, 2004. The fundamental objectives of the rights plan are to provide adequate time for our board of directors and shareholders to assess an unsolicited take-over bid for us, to provide the board of directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made, and to provide shareholders with an equal opportunity to participate in a take-over bid;

4. the warrant indenture between Equity Transfer Services Inc. and us dated December 21, 2004 that governs the Warrants. The warrant indenture provides for adjustment to the exercise price of and the kind and number of common shares to be issued upon exercise of the Warrants;

5. the Parent Guarantee referred to under the heading "General Development of the Business — Acquisition of HBMS"; and

6. the Note Indenture among Hudson Bay Mining and Smelting Co., Limited, Hudson Bay Exploration and Development Company Limited and the Bank of New York, as trustee, dated December 21, 2004 that governs the Notes issued by Hudson Bay Mining and Smelting Co., Limited in connection with the Acquisition and the First Supplemental Indenture dated April 20, 2005.

INTEREST OF EXPERTS

Neither Kim Lau, B.Sc. P.Geo, or Gerald Beauchamp, B.Sc., P.Eng. or any partner, associate or affiliate thereof, as applicable, received or has received a direct or indirect interest in our property or of any of our associates or affiliates. As at the date hereof, the aforementioned persons beneficially own, directly or indirectly less than one per cent of our securities.

Each of these persons is employed by us or one of our associates or affiliates.

ADDITIONAL INFORMATION

Additional information, including director's and officer's remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in our management information circular dated March 27, 2005. Additional financial information is provided in our financial statements and management's discussion and analysis for the fiscal year ended December 31, 2005.

Additional information relating to the Company may be found at www.sedar.com.

SCHEDULE "A"
GLOSSARY OF MINING TERMS

The following is a glossary of terms used in this annual information form.

"basalt"	A general term for dark-colored mafic igneous rocks, commonly extrusive but locally intrusive (e.g., as dikes), composed chiefly of calcic plagioclase and clinopyroxene; the fine-grained equivalent of gabbro. Nepheline, olivine, orthopyroxene, or quartz may be present. Adj. basaltic.
"CIM"	Canadian Institute of Mining, Metallurgy and Petroleum.
"concentrator"	A plant where ore is separated into values (concentrates) and rejects (tails). An appliance in such a plant, e.g., flotation cell, jig, electromagnet, shaking table. Also called mill.
"double-drum hoist"	A hoist with two drums that can be driven separately or together by a clutch.
"felsic"	A mnemonic adj. derived from (fe) for feldspar, (l) for lenad or feldspathoid, and (s) for silica, and applied to light-colored rocks containing an abundance of one or all of these constituents. Also applied to the minerals themselves, the chief felsic minerals being quartz, feldspar, feldspathoid, and muscovite.
"grade"	The amount of valuable metal in each tonne of ore, expressed as grams per tonne for precious metals.
	Cut-off grade — is the minimum metal grade at which a tonne of rock can be processed on an economic basis.
"hectare"	One hectare equals 2.47 acres.
"mafic"	Pertaining to or composed dominantly of the ferromagnesian rock-forming silicates; said of some igneous rocks and their constituent minerals.
"metallurgy"	The science of extracting metals from ores by mechanical and chemical processes and preparing them for use.
"mine"	An excavation in the earth for the purpose of extracting minerals. The excavation may be an open pit on the surface or underground workings.
"mineral reserves"	That part of a measured or indicated mineral resource which could be economically mined, demonstrated by at least a preliminary feasibility study that includes adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. Mineral reserves are those parts of mineral resources which, after the application of all mining factors, result in an estimated tonnage and grade which, in the opinion of the qualified person(s) making the estimates, is the basis of an economically viable project after taking account of all relevant processing, metallurgical, economic, marketing, legal, environment, socio-economic and government factors. Mineral reserves are inclusive of diluting material that will be mined in conjunction with the mineral reserves and delivered to the treatment plant or equivalent facility. The term "mineral reserve" need not necessarily signify that extraction facilities are in place or operative or that all governmental approvals have been received. It does signify that there are

	reasonable expectations of such approvals. Mineral reserves are subdivided into proven mineral reserves and probable mineral reserves. Mineral reserves fall under the following categories:
"proven mineral reserves"	That part of a measured mineral resource that is the economically mineable part of a measured mineral resource, demonstrated by at least a preliminary feasibility study that includes adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.
"probable mineral reserves"	That part of an indicated and in some circumstances a measured mineral resource that is economically mineable demonstrated by at least a preliminary feasibility study that includes adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.
"mineral resources"	A concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources fall under the following categories:
"measured mineral resource"	That part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
"indicated mineral resource"	That part of a mineral resource for which quantity, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters and to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
"inferred mineral resource"	That part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.
"mineralization"	The process or processes by which a mineral or minerals are introduced into a rock, resulting in a valuable or potentially valuable deposit. It is a general term incorporating various types; for example, fissure filling, impregnation and replacement.
"M"	Millions.
"mm"	Millimetres (0.001 metres).

"NI 43-101"	National Instrument 43-101 — Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators.
"ore"	A natural aggregate of one or more minerals which, at a specified time and place, may be mined and sold at a profit, or from which some part may be profitably separated.
"ounce" or "oz"	Troy ounce, equal to approximately 31.103 grams.
"recovery"	A term used in process metallurgy to indicate the proportion of valuable material obtained in the process. It is generally stated as a percentage of valuable metal in the processed material that is recovered compared to the total valuable metal present.
"roasting"	Heating an ore to effect some chemical change that will facilitate smelting.
"stratiform"	Having the form of a layer, bed, or stratum; consisting of roughly parallel bands or sheets, such as a stratiform intrusion.
"stratigraphic sequence"	A chronologic succession of sedimentary rocks from older below to younger above, essentially without interruption; e.g., a sequence of bedded rocks of interregional scope, bounded by unconformities.
"stratigraphy"	The science of rock strata. It is concerned not only with the original succession and age relations of rock strata but also with their form, distribution, lithologic composition, fossil content, geophysical and geochemical properties; indeed, with all characters and attributes of rocks as strata; and their interpretation in terms of environment or mode of origin, and geologic history.
"tailings"	The gangue and other refuse material resulting from the washing, concentration, or treatment of ground ore.
"ton"	A unit of measurement equivalent to 2,000 pounds.
"tonne"	A metric tonne, 1,000 kilograms or 2,204.6 pounds.

Conversion Table

To Convert	To	Multiply by
Short tons	Tonnes	1.10231
Long tons	Tonnes	1.01605
Pounds	Tonnes	2204.62
Ounces (troy)	Tonnes	0.000031103
Ounces (troy)	Kilograms	32.150
Ounces (troy)	Grams	0.03215
Ounces (troy)/short ton	Grams/tonne	34.28573
Acres	Hectares	2.47105
Miles	Kilometres	1.60934
Feet	Metres	3.28084

SCHEDULE "B"
AUDIT COMMITTEE CHARTER

I. PURPOSE

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by:

- reviewing the financial reports and other financial information provided by the Company to any governmental body or the public and other relevant documents;
- recommending the appointment and reviewing and appraising the audit efforts of the Company's independent auditor and providing an open avenue of communication among the independent auditor, financial and senior management and the Board of Directors;
- serving as an independent and objective party to monitor the Company's financial reporting process and internal controls, the Company's processes to manage business and financial risk, and its compliance with legal, ethical and regulatory requirements;
- encouraging continuous improvement of, and fostering adherence to, the Company's policies, procedures and practices at all levels.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section III of this Charter. The Audit Committee's primary function is to assist the Board of Directors in fulfilling its responsibilities and it recognizes that the Company's management is responsible for preparing the Company's financial statements and that the Company's independent auditors are responsible for auditing those financial statements.

II. COMPOSITION AND MEETINGS

The Audit Committee shall be comprised of a minimum of three directors as determined by the Board, all of whom shall be "independent" directors as such term is defined in Appendix "A". All members of the Committee shall, to the satisfaction of the Board of Directors, be "financially literate" as such term is defined in Appendix "A".

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board or until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances require. The Committee shall meet prior to the filing of quarterly financial statements to review and discuss the unaudited financial results for the preceding quarter and the related Management's Discussion & Analysis and shall meet prior to filing the annual audited financial statements to review and discuss the audited financial results for the year and related Management's Discussion & Analysis.

As part of its job to foster open communication, the Committee should meet at least annually with management and the independent auditor in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their oversight related duties, members of the Committee shall have full access to all corporate information and shall be permitted to discuss such information and any other matters relating to the financial position of the Company with senior employees, officers and independent auditors of the Company.

Quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Committee or such greater number as the Audit Committee shall by resolution determine.

Meetings of the Audit Committee shall be held from time to time and at such place as the Audit Committee or the Chairman of the Committee shall determine upon a 48 hours prior notice. The notice period may be waived by a quorum of the Committee. Each of the Chairman of the Committee, members of the Committee, Chairman of the Board, independent auditors, Chief Executive Officer, Chief Financial Officer or Secretary shall be entitled to request that the Chairman of the Audit Committee call a meeting which shall be held within 48 hours of receipt of such request.

III. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Audit Committee shall:

1. Create an agenda for the ensuing year.

2. Review and update this Charter at least annually, as conditions dictate.

3. Describe briefly in the Company's annual report and more fully in the Company's Management Information Circular or its Annual Information Form the Committee's composition and responsibilities and how they were discharged and otherwise assist management in providing the information required by Form 52-110F1 in the Company's Annual Information Form or such other disclosure document required by Multilateral Instrument 52-110.

4. Report periodically to the Board of Directors.

Documents/Reports Review

1. Review the Company's interim and annual financial statements as well as all interim and annual Management's Discussion and Analysis and interim and annual earnings press releases prior to their publication and/or filing with any governmental body, or the public.

2. Review policies and procedures with respect to directors' and officers' expense accounts and management perquisites and benefits, including their use of corporate assets and expenditures related to executive travel and entertainment, and review the results of the procedures performed in these areas by the independent auditor, based on terms of reference agreed upon by the independent auditor and the Audit Committee.

3. Satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to in paragraph 5, and periodically access the adequacy of such procedures.

Independent Auditor

1. Recommend to the Board of Directors the selection of the independent auditor, considering independence and effectiveness and approve the fees and other compensation to be paid to the independent auditor. Instruct the independent auditor that the Board of Directors, as the shareholders' representative, is the independent auditor's client.

2. Monitor the relationship between management and the independent auditor including reviewing any management letters or other reports of the independent auditor and discussing and resolving any material differences of opinion between management and the independent auditor.

3. Review and discuss, on an annual basis, with the independent auditor all significant relationships they have with the Company to determine their independence.

4. Pre-approve all non-audit services to be provided to the Company or its subsidiaries by the independent auditor.

5. Oversee the work and review the performance of the independent auditor and approve any proposed discharge of the independent auditor when circumstances warrant. Consider with management and the independent auditor the rationale for employing accounting/auditing firms other than the principal independent auditor.

6. Periodically consult with the independent auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the organization's financial statements. Particular emphasis should be given to the adequacy of internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.

7. Satisfy itself that adequate procedures are in place to: (a) cause the independent auditor reports directly to the Audit Committee; and (b) arrange for the independent auditor to be available to the Audit Committee and the full Board of Directors as needed.

8. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the Company's independent auditor.

Financial Reporting Processes

1. In consultation with the independent auditor review the integrity of the organization's financial reporting processes, both internal and external.

2. Consider the independent auditor's judgments about the quality and appropriateness, not just the acceptability, of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or are minority practices.

3. Consider and approve, if appropriate, major changes to the Company's accounting principles and practices as suggested by management with the concurrence of the independent auditor and ensure that the management's reasoning is described in determining the appropriateness of changes in accounting principles and disclosure

Process Improvement

1. Establish regular and separate systems of reporting to the Audit Committee by each of management and the independent auditor regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.

2. Review the scope and plans of the independent auditor's audit and reviews prior to the audit and reviews being conducted. The Committee may authorize the independent auditor to perform supplemental reviews or audits as the Committee may deem desirable.

3. Following completion of the annual audit and quarterly reviews, review separately with each of management and the independent auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and reviews, including any restrictions on the scope of work or access to required information and the cooperation that the independent auditor received during the course of the audit and reviews.

4. Review and resolve any significant disagreements among management and the independent auditor in connection with the preparation of the financial statements.

5. Where there are significant unsettled issues the Committee shall ensure that there is an agreed course of action for the resolution of such matters.

6. Review with the independent auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.

7. Review activities, organizational structure, and qualifications of the chief financial officer and the staff in the financial reporting area and see to it that matters related to succession planning within the Company are raised for consideration at the full Board of Directors.

Ethical and Legal Compliance

1. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting internal controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

2. Review and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce this Code. Review through appropriate actions taken to ensure compliance with the Code of Ethical Conduct and to review the results of confirmations and violations of such Code.

3. Review management's monitoring of the Company's system in place to ensure that the Company's financial statements, reports and other financial information disseminated to governmental organizations, and the public satisfy legal requirements.

4. Review, with the organization's counsel, legal and regulatory compliance matters, including corporate securities trading policies, and matters that could have a significant impact on the organization's financial statements.

Risk Management

1. Review management's program of risk assessment and steps taken to address significant risks or exposures, including insurance coverage.

General

1. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

   The committee shall be empowered to retain and compensate independent counsel, accountants and other professionals to assist it in the performance of its duties as it deems necessary.

2. Perform any other activities consistent with this Charter, the Company's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.

Appendix "A" to Schedule "A"

Independence Requirement of Multilateral Instrument 52-110

A member of the Audit Committee shall be considered "independent", in accordance with *Multilateral Instrument 52-110 — Audit Committees* ("MI 52-110"), subject to the additional requirements or exceptions provided in MI 52-110, if that member has no direct or indirect relationship with the Company, which could reasonably interfere with the exercise of the member's independent judgment. The following persons are considered to have a material relationship with the Company and, as such, can not be a member of the Audit Committee:

(a) an individual who is, or has been within the last three years, an employee or executive officer of the Company;

(b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the Company;

(c) an individual who:

(i) is a partner of a firm that is the Company's internal or external auditor;

(ii) is an employee of that firm; or

(iii) was within the last three years a partner or employee of that firm and personally worked on the Company's audit within that time;

(d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

(i) is a partner of a firm that is the Company's internal or external auditor;

(ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or

(iii) was within the last three years a partner or employee of that firm and personally worked on the Company's audit within that time;

(e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Company's current executive officers serves or served at the same time on the entity's compensation committee; and

(f) an individual who received, or whose immediate family member who is employed as an executive officer of the Company received, more than $75,000 in direct compensation from the Company during any 12 month period within the last three years, other than as remuneration for acting in his or her capacity as a member of the Board of Directors or any Board committee, or the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service for the Company if the compensation is not contingent in any way on continued service.

In addition to the independence criteria discussed above, any individual who:

(a) has a relationship with the Company pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any subsidiary entity of the Company, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee; or as a part-time chair or vice-chair of the board or any board or committee, or

(b) is an affiliated entity of the Company or any of its subsidiary entities,

is deemed to have a material relationship with the Company, and therefore, is deemed not to be independent.

The indirect acceptance by an individual of any consulting, advisory or other fee includes acceptance of a fee by:

(a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or

(b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Company or any subsidiary entity of the Company.

Financial Literacy Under Multilateral Instrument 52-110

"Financially literate", in accordance with MI 52-110, means that the director has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

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Exhibit 2

Consolidated Financial Statements
(In Canadian dollars)

HUDBAY MINERALS INC.

Years ended December 31, 2005 and 2004

Deloitte & Touche LLP
360 Main Street
Suite 2300
Winnipeg MB R3C 3Z3
Canada

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Report of Independent Registered Chartered Accountants

To the Shareholders
HudBay Minerals Inc.

We have audited the consolidated balance sheet of HudBay Minerals Inc. as at December 31, 2005 and the consolidated statements of earnings, retained earnings and cash flows for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005, the results of its operations and cash flows for the year ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

The consolidated financial statements as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 30, 2005.

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants

Winnipeg, Manitoba, Canada
March 17, 2006

Member of
Deloitte Touche Tohmatsu

HUDBAY MINERALS INC.

Consolidated Statements of Earnings (Loss)
(In thousands of Canadian dollars, except share and per share amounts)

Years ended December 31, 2005 and 2004

	2005	2004
Revenue	**$ 652,028**	$ 13,327
Expenses:		
Operating	**480,518**	14,081
Depreciation and amortization	**53,100**	1,443
General and administrative	**19,620**	5,127
Exploration	**11,281**	1,734
Accretion of asset retirement obligation	**2,612**	138
Foreign exchange loss	**2,338**	—
	569,469	22,523
Operating earnings (loss)	**82,559**	(9,196)
Interest expense	**(21,939)**	(2,320)
Foreign exchange gain on long term debt	**6,825**	1,562
Gain on derivative instruments (note 16c)	**5,319**	78
Interest and other income	**3,996**	103
Amortization of deferred financing fees	**(2,342)**	(620)
Earnings (loss) before income taxes	**74,418**	(10,393)
Tax recovery (note 13)	**10,800**	473
Earnings (loss) for the year	**$ 85,218**	$ (9,920)
Earnings (loss) per share:		
Basic	**$ 1.04**	$ (1.12)
Diluted (note 14d)	**0.70**	(1.12)
Weighted average number of common shares outstanding		
Basic	**82,008,190**	8,894,235
Diluted (note 14d)	**121,116,832**	8,894,235

See accompanying notes to consolidated financial statements.

HUDBAY MINERALS INC.

Consolidated Statements of Retained Earnings (Deficit)
(In thousands of Canadian dollars)

Years ended December 31, 2005 and 2004

	2005	2004
Deficit, beginning of year:		
As previously stated	**$ (6,486)**	$ (19,052)
Changes in accounting policies (note 2 (o), (p)):		
Asset retirement obligations	**—**	(43)
Exploration costs	**—**	(590)
As restated	**(6,486)**	(19,685)
Earnings (loss) for the year	**85,218**	(9,920)
Realization of equity component of debenture (note 8c)	**—**	1,140
Reduction of stated capital (note 14e)	**—**	21,979
Retained earnings (deficit), end of year	**$ 78,732**	$ (6,486)

See accompanying notes to consolidated financial statements.

HUDBAY MINERALS INC.

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31, 2005 and 2004

	2005	2004
Assets:		
Current assets:		
Cash and cash equivalents	**$ 141,660**	$ 64,553
Accounts receivable	**44,698**	73,210
Inventories (note 4)	**116,596**	100,282
Prepaid expenses	**3,625**	3,496
Current portion of fair value of derivatives (note 16c)	**4,483**	3,418
Future income taxes (note 13)	**26,200**	12,900
	337,262	257,859
Property, plant and equipment (note 5)	**378,207**	358,662
Other assets (note 6)	**13,284**	26,176
	$ 728,753	$ 642,697
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 91,930**	$ 89,749
Interest payable on long-term debt	**8,004**	563
Current portion of other liabilities (note 7)	**28,211**	20,595
	128,145	110,907
Long-term debt (note 8)	**191,493**	223,529
Pension obligation (note 9)	**46,743**	57,437
Other employee future benefits (note 10)	**61,250**	57,929
Asset retirement obligations (note 11)	**29,219**	27,120
Obligations under capital leases (note 12)	**9,011**	11,719
Future income tax liabilities (note 13)	**1,666**	1,290
	$ 467,527	$ 489,931
Shareholders' equity:		
Share capital:		
Common shares (note 14a)	**143,611**	120,138
Warrants (note 14b)	**28,931**	35,850
Contributed surplus	**10,015**	3,288
Cumulative translation adjustment	**(63)**	(24)
Retained earnings (deficit)	**78,732**	(6,486)
	261,226	152,766
	$ 728,753	$ 642,697

Contingencies (note 15), Commitments (note 20), Subsequent events (note 24).

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Allen J. Palmiere" Director

"Peter R. Jones" Director

HUDBAY MINERALS INC.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Earnings (loss) for the year	**$ 85,218**	$ (9,920)
Items not affecting cash:		
Depreciation and amortization	**53,100**	1,227
Realization of previously unrecorded tax losses	**(11,858)**	(397)
Unrealized foreign exchange gain	**(4,012)**	(2,980)
Amortization of deferred financing costs	**2,342**	216
Accretion expense on asset retirement obligation	**2,612**	73
Stock-based compensation	**2,674**	1,193
Unrealized portion of change in fair value of derivative	**(562)**	(78)
Other	**(6,343)**	1,165
Change in non-cash working capital (note 21)	**21,691**	2,273
	144,862	(7,228)
Financing activities:		
Issuance (repayment) of senior secured notes (note 8a)	**(21,953)**	214,112
Issuance of common shares, net of costs	**20,607**	139,484
Repayments of obligations under capital leases	**(3,672)**	(17)
Repayment of loans payable	**(2,000)**	—
Deferred financing cost	**(350)**	(9,600)
Proceeds of exercise of stock options	**—**	64
Proceeds on exercise of warrants	**—**	117
Decrease in debenture subscription receivable	**—**	2,000
Issuance of convertible debenture	**—**	600
Repayment of convertible debenture	**—**	(2,860)
Advance from HBMS prior to acquisition	**—**	540
	(7,368)	344,440
Investing activities:		
Additions to property, plant and equipment	**(70,924)**	(5,180)
Decrease (increase) in restricted cash	**13,000**	(13,000)
Additions (reductions) to environmental deposits	**31**	(294)
Sale of investments	**463**	—
Acquisition of HBMS, net of cash acquired (note 3)	**—**	(255,610)
	(57,430)	(274,084)
Foreign exchange loss on cash held in foreign currency	**(2,957)**	(689)
Change in cash and cash equivalents	**77,107**	62,439
Cash and cash equivalents, beginning of year	**64,553**	2,114
Cash and cash equivalents, end of year	**$ 141,660**	$ 64,553

	2005	2004
Supplementary cash flow information:		
Interest paid	**$ 13,613**	$ 309
Additions to obligations under capital leases	**1,451**	—
Supplemental disclosure of non-cash financing and investing activities:		
Shares issued in settlement of other indebtedness	**—**	40
Shares and warrants issued in connection with the acquisition of HBMS	**—**	13,000

See accompanying notes to consolidated financial statements.

1. Nature of business:

HudBay Minerals Inc. (the "Company") changed its name from ONTZINC Corporation by way of Articles of Amendment dated December 21, 2004. The Company was formed by amalgamation in 1996 under the Ontario Business Corporations Act and was continued under the Canada Business Act on October 25, 2005. Prior to December 21, 2004, the Company was engaged in the business of evaluation, acquisition and exploration of mineral properties. Substantially all of the efforts of the Company were devoted to these business activities. Prior to that date, the Company had not earned significant revenue and was considered to be in the development stage.

On December 21, 2004, the Company completed a public offering of common shares and warrants raising gross proceeds of $143,813 and also completed an offering of U.S.$175,000 Senior Secured Notes. The Company then utilized the proceeds from these financings to complete the acquisition from Anglo American International, S.A. ("Anglo American") of all of the outstanding shares of 152640 Canada Inc., which held all of the outstanding shares of Hudson Bay Mining and Smelting Co., Ltd. ("HBMS").

The Company is now an integrated mining and metals processing company that operates mines and concentrators in northern Manitoba and Saskatchewan, Canada, is re-opening a mine in New York State, and operates a copper and zinc metal production complex in Flin Flon, Manitoba, exercised an option to purchase a copper refinery in Michigan state, and a zinc oxide production facility in Brampton, Ontario.

Also on December 21, 2004, the Company completed a 30 for 1 common share consolidation which has been retroactively reflected as if the common share consolidation had occurred on January 1, 2002. All references to common shares within these consolidated financial statements reflect the consolidation.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and are presented in Canadian dollars. These principles conform in all material respects with generally accepted accounting principles in the United States ("U.S. GAAP"), except as described in note 23.

These consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated on consolidation.

The financial position of HBMS as at December 31, 2004 and its results of operations and cash flows from the date of acquisition on December 21, 2004 to December 31, 2004 have been included in these consolidated financial statements. As a wholly owned subsidiary for the 2005 fiscal year, the financial position of HBMS as of December 31,

2005 and the results of its operation and cash flows for the entire year have been included in these financial statements. Accordingly, comparative operating results are not considered to be meaningful. The proportionate share of the assets and liabilities of any joint ventures in which HBMS shares joint control has also been included.

(b) Use of estimates:

The preparation of financial statements requires the use of management estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Significant areas where management's judgement is applied include ore reserve determinations, in-process inventory quantities, plant and equipment estimated economic lives and salvage values, contingent liabilities, future income tax valuation reserves, asset retirement obligation, pension obligations and other employee future benefits. Actual results could differ from those estimates by material amounts.

(c) Translation of foreign currencies:

Monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets and liabilities are translated at historical rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to earnings.

The assets and liabilities of self-sustaining foreign operations are translated at year-end exchange rates, and revenue and expenses are translated at monthly average exchange rates. Differences arising from these foreign currency translations are recorded in shareholders' equity as a cumulative translation adjustment until they are realized by a reduction in the investment.

(d) Revenue recognition:

Prior to December 21, 2004, the Company had not earned significant revenue and was considered to be in the development stage.

Sales are recognized and revenue is recorded at market prices when title and the rights and obligations of ownership pass to the customer, collection is reasonably assured and the price is reasonably determinable. A number of the Company's products are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Subsequent variations in the final determination of metal weights, assay and price are recognized as revenue adjustments as they occur until the price is finalized.

(e) Cash and cash equivalents:

Cash and cash equivalents include cash and highly liquid investments with an original maturity of three months or less at the date of acquisition.

(f) Inventories:

Inventories consist substantially of in-process inventory (concentrates and metals), metal products and supplies. Concentrates, metals and all other saleable products are valued at the lower of cost and estimated net realizable value. Cost includes material, labour and amortization of all property, plant and equipment directly involved with the mining and production process. In-process inventories represent materials that are currently in the process of being converted to a saleable product. Conversion processes vary depending on the nature of the concentrate or metal. In-process inventory is measured based on assays of the material fed to the processing plants and the projected recoveries of the respective plants and is valued at cost. Cost of finished metal inventory represent the average cost of the in-process inventory incurred prior to the refining and casting process, plus applicable refining and casting costs.

Supplies are valued at the lower of cost, replacement and value in use. Cost is determined on an average basis.

(g) Investments:

Investments include marketable securities recorded at the lower of cost and market.

(h) Property, plant and equipment:

(i) Mineral properties:

(a) Mineral exploration costs are expensed as incurred. When management's evaluation, based on a feasibility study, indicates that the property is capable of economical commercial production, as a result of establishing proven and probable resources, future costs are capitalized as mine development expenditures.

(b) Mineral exploration properties acquired as part of the purchase of HBMS will be carried at initial fair value and be subject to an annual impairment review and evaluation.

(ii) Mine development expenditures:

Exploration and development costs for properties deemed capable of economical commercial production are capitalized and amortized using the unit-of-production method. The unit-of-production amortization is based on the related proven and probable tons of ore reserves and associated future development costs. The cost of underground development to provide access to a reserve at an operating mine is capitalized where that portion of the development is necessary to access more than one workplace or stope. Capital development includes shafts, ramps, track haulage drifts, ancillary drifts, sumps, electrical substations, refuge stations, ventilation raises, permanent manways, and ore and waste pass raises.

Ongoing repairs, maintenance and development expenditures are charged to operations as incurred. These include ore stope access drifts, footwall and hangingwall drifts in stopes, drawpoints, drill drifts, sublevels, slots, drill raises, stope manway access raises and definition diamond drilling.

No amortization is provided in respect of mine development expenditures until commencement of economical commercial production. Commercial production occurs when an asset or property is substantially complete and ready for its intended use. Any production revenue prior to commercial production, net of related costs, is offset against the development costs.

(iii) Plant and equipment:

Expenditures for plant and equipment additions, major replacements and improvements are capitalized at cost, net of applied investment tax credits. Plant and equipment, including assets under capital lease, are depreciated on either unit-of-production or straight-line basis. The unit-of-production method is based on proven and probable tons of ore reserves. The assets using the straight-line method are depreciated over the estimated useful lives of the assets, which range from one to 15 years. The Company also considers future estimated residual values in its determination of depreciation.

(iv) Capitalized interest:

Interest on borrowings related to the financing of major capital projects under construction is capitalized during the construction phase as part of the cost of the project.

(v) Impairment of long-lived assets:

The Company reviews and evaluates the carrying value of its operating mines and exploration and development properties for impairment when events or circumstances indicate that the carrying amounts of related assets or groups of assets may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value, which is normally the discounted value of future cash flows. Future cash flows are estimated based on estimated future recoverable mine production, expected sales prices (considering current and historical prices, price trends and related factors), production levels, cash costs of production, capital and reclamation costs, all based on detailed engineering life-of-mine plans. Future recoverable mine production is determined from proven and probable reserves and measured, indicated and inferred mineral resources after taking into account estimated dilution and recoveries during mining, and estimated losses during ore processing and treatment. Estimates of recoverable production from measured, indicated and inferred mineral resources are considered economically mineable and are based on management's confidence in converting such resources to proven and probable reserves. All long-lived assets are considered together for purposes of estimating future cash flows. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. It is possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in mineral properties.

(i) Pension and other employee future benefits:

The Company has non-contributory and contributory defined benefit pension plans for its employees. The benefits are based on years of service and final average salary for the salary plan, and flat dollar amount combined with years of service for the hourly. The Company provides long-term disability income, health benefits and other post-employment benefits to hourly employees and long-term disability health benefits to salaried employees. The Company also provides ongoing health care benefits to certain pensioners.

The Company accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets and accrued benefit obligation coincides with the Company's fiscal year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2004.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The average remaining service period of the active employees covered by the pension plan is 12 years. The average remaining service period of the active employees covered by the other retirement benefits plan is 13.7 years.

The Company also has defined contribution plans providing pension benefits for its salaried employees. The cost of the defined contribution plans is recognized based on the contributions required to be made during each period.

(j) Financial instruments and commodity contracts:

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, current portion of long-term debt and current portion of obligations under capital leases approximate their fair value due to their short-term nature. The fair value of long-term debt has been determined using discounted cash flows at current market rates. Derivative financial instruments have been valued at current fair values using quoted market prices or accepted valuation methodologies.

The Company from time to time employs derivative financial instruments, including forwards and option contracts, to manage risk originating from actual exposures to commodity price risk, foreign exchange risk and interest rate risk.

In management's opinion, although the contracts continue to be effective in mitigating the Company's exposure to commodity risk, the Company's management elected not to designate its commodity risk management activities as accounting hedges under The Canadian Institute of Chartered Accountants' ("CICA") Accounting Guideline 13 ("AcG-13"), Hedging Relationships. Management may evaluate, from time to time, its hedge accounting policies and practices and may elect to designate and document contracts as accounting hedges.

Foreign exchange derivative contracts continue to be effective in mitigating some of the Company's exposure to foreign exchange rate fluctuations. The Company elected to designate these contracts as accounting hedges under AcG-13 and has applied cash flow hedge accounting.

The estimated fair value of all derivative financial instruments is based on quoted market prices or, in their absence, third party market indications and forecasts. Unrealized gains or losses and realized gains or losses are recorded in the statement of earnings.

(k) Stock-based compensation plans:

The Company's stock-based compensation plan is described in note 14c. The Company accounts for all stock-based payments using the fair value-based method. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital.

(l) Income taxes:

The Company accounts for income and mining taxes under the asset and liability method. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(m) Flow-through shares:

The Company financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Share capital is reduced and future income tax liabilities and/or tax recoveries are increased by the estimated income tax benefits renounced by the Company to the subscribers.

(n) Earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing earnings (loss) for the year by the weighted average number of common shares outstanding for the year. Shares held in escrow are included in the weighted average number of common shares when they are released from escrow. Diluted earnings (loss) per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method.

(o) Asset retirement obligations:

The Company accounts for asset retirement obligations in accordance with Section 3110 of the CICA Handbook. Section 3110 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset.

This policy requires that the fair value of a liability for an asset retirement obligation be recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Upon settlement of the liability, a gain or loss is recorded. The Company records asset retirement obligations primarily associated with decommissioning and restoration costs. The Company will make periodic assessments as to the reasonableness of its asset retirement obligation estimates and revise those estimates accordingly. The respective asset and liability balances are adjusted with the corresponding increase or decrease expensed in future periods.

The long-term asset retirement obligation is based on environmental plans, in compliance with the current environmental and regulatory requirements. Accretion expense is charged to the consolidated statements of earnings and deficit based on application of an interest component to the existing liability.

(p) Exploration costs:

The Company accounts for exploration expenditures by capitalizing the costs when management's evaluation indicates that the property is capable of economical commercial production.

3. Acquisition of Hudson Bay Mining and Smelting Co., Limited:

On December 21, 2004, the Company acquired all of the outstanding common shares of HBMS for total purchase consideration of $315,790, plus $4,324 of corporate transaction costs. The total purchase consideration of $315,790 was satisfied by cash of $302,790 and by the issuance to Anglo of 5,777,777 common shares and 86,666,667 share purchase warrants, where every 30 share purchase warrants are exercisable for one common share at an exercise price of $3.15 per common share. The value of the common share consideration of $11,700

has been determined based on the average of the closing price of the Company's common shares for the two days before and after the date of announcement of the transaction on October 7, 2004. The value of the warrant consideration of $1,300 has been based on a similar method to the valuation of the warrants issued in the public offering as described in note 14b. The acquisition has been accounted for by the purchase method and the result of operations and cash flows have been included within these consolidated financial statements from December 21, 2004. The following table summarizes the allocation of the purchase consideration of the fair value of the assets and liabilities acquired on the date of acquisition:

Current assets (including cash of $51,504)	$ 229,601
Investments	463
Property, plant and equipment (note 5)	349,629
Intangible assets (note 6)	1,452
Current liabilities	(73,886)
Debt obligations (note 8)	(15,179)
Pensions and post-retirement benefit obligations (notes 9 and 10)	(130,353)
Asset retirement obligations (note 11)	(26,163)
Obligations under capital leases (note 12)	(15,074)
Other non-current liabilities	(376)
	$ 320,114

During the fourth quarter of 2005, after receiving the final independent asset and obligation valuations from third parties, the Company finalised its accounting for the HBMS acquisition. The excess of amounts assigned to net assets over the purchase price ("negative goodwill") in the amount of $299.6 million has been allocated as a pro rata reduction as follows:

	Fair market value	Negative goodwill allocation	Carrying value
Property, plant and equipment	$ 647,976	$ 298,347	$ 349,629
Intangible assets	2,691	1,239	1,452
	$ 650,667	$ 299,586	$ 351,081

4. Inventories:

	2005	2004
Work-in-process	$ 84,456	$ 72,061
Finished goods	16,635	14,639
Material and supplies	15,505	13,582
	$ 116,596	$ 100,282

5. Property, plant and equipment:

2005	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	279,711	19,924	259,787
Mine development	135,826	34,398	101,428
Mineral exploration properties	16,992	—	16,992
	$ 432,529	$ 54,322	$ 378,207

2004	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	$ 203,705	$ 418	$ 203,287
Mine development	156,189	814	155,375
	$ 359,894	$ 1,232	$ 358,662

The depreciation and amortization recorded for 2004 included HBMS for the 10-day period.

Included in property, plant and equipment are the following:

	2005	2004
Property, plant and equipment under construction or development	$ 8,006	$ 6,753
Equipment under capital leases:		
Cost	$ 17,090	$ 15,521
Less accumulated depreciation	1,738	39
	$ 15,352	$ 15,482
Amortization expense related to equipment under capital leases	$ 1,699	$ 39

6. Other assets:

	2005	2004
Deferred financing costs	$ 7,610	$ 9,600
Deferred option premiums	3,647	—
Intangible assets	—	552
Restricted cash	—	13,000
Environmental deposits	1,758	1,789
Fair value of derivatives (note 16c)	269	772
Investments	—	463
	$ 13,284	$ 26,176

Upon finalization of the acquisition accounting for HBMS, the fair value of supplier contracts and licensing agreements, prior to the application of negative goodwill, in the amount of $2,691 was recognized. As part of the recognition of income tax assets during 2005, intangible assets have been reduced to nil. For 2004, intangible assets include zinc process licensing agreements, which were amortized over the estimated life of the zinc plant facility, being 13 years.

Environmental deposits include various amounts with government agencies in the Province of Nova Scotia, Canada and in New York State, United States, in connection with the acquisitions of the Gay's River and Balmat mine properties.

7. Current portion of other liabilities:

	2005	2004
Current portion of long-term debt (note 8)	$ 4,000	$ 2,000
Current portion of pension obligation (note 9)	18,355	12,650
Current portion of other employee future benefits (note 10)	2,031	2,012
Current portion of obligations under capital leases (note 12)	3,825	3,338
Current portion of fair value of derivatives	—	178
Current portion of non-current liabilities	—	417
	$ 28,211	$ 20,595

8. Long-term debt:

	2005	2004
Senior Secured Notes (a)	$ 181,428	$ 210,350
Province of Manitoba (b)	14,065	15,179
Convertible debentures (c)	—	—
	195,493	225,529
Less current portion of long-term debt	4,000	2,000
	$ 191,493	$ 223,529

(a) Senior Secured Notes:

On December 21, 2004, a subsidiary of the Company issued U.S. $175,000 Senior Secured Notes ("Notes") bearing interest at 9.625% per annum with interest payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2005. The Notes will mature on January 15, 2012. Subsequent to the issuance of the Notes, the subsidiary which issued the Notes amalgamated with HBMS. Financing costs amounting to $9,950 were incurred in connection with the issuance of the Notes and are amortized into income on a straight-line basis over the term of the Notes, unless redeemed early.

HBMS may redeem up to 35% of the aggregate principal amount of the Notes at any time prior to January 15, 2008 with the net proceeds from certain equity offerings at a price equal to 109.625% of the principal amount of the Notes plus accrued and unpaid interest. After January 15, 2009, HBMS may redeem some or all of the Notes at the redemption prices of 104.813% in 2009, 102.406% in 2010 and 100% thereafter. In addition, if

HBMS undergoes a change of control or if it sells certain of its assets, it may be required to offer to purchase the Notes at specified redemption prices. HBMS also has the right to redeem all of the Notes if at any time Canadian law changes to require it to withhold taxes from payments on the Notes. The Company is not precluded from repurchasing the Notes in the open market at market prices. Before the end of the year, the Company repurchased US$19,000 of the Notes in the open market reducing the outstanding notional amount of the Notes to US$156,000. The Company paid a premium for this purchase in the amount of US$1,284 that was recorded as an expense. In addition, deferred financing costs in the amount of $927 related to this purchase were also expensed.

The Notes are HBMS's senior obligations and will rank equally in right of payment with all of its existing and future senior indebtedness and rank senior to all of its existing and future subordinated indebtedness. The Notes are guaranteed on a senior basis by the Company's subsidiary, Hudson Bay Exploration and Development Company Limited, and will be guaranteed by any future domestic restricted subsidiaries. Subsequent to December 31, 2004, the Notes are also guaranteed by the Company. The Company's guarantee of the Notes will terminate on the date upon which it owns less than a majority of the voting shares of HBMS. The Notes and the subsidiary guarantee are secured by first priority liens on HBMS's real property, mineral claims and leases in the Provinces of Manitoba and Saskatchewan and second priority liens on HBMS's and the subsidiary guarantor's accounts receivable and inventories, which may be used to secure, on a first-priority basis, HBMS's obligations under any future credit facility.

The Company's interest expense on the Notes and weighted average interest rate is as follows:

	2005	2004
Interest expense	$ 20,237	$ 608
Weighted average interest rate	9.625%	9.625%

(b) Loan payable:

The interest-free loan from the Province of Manitoba is secured by an irrevocable standby letter of credit issued by a Canadian chartered bank and is due in instalments of $4 million on June 14, 2006 and 2007 and $7.5 million on June 14, 2008. As at December 21, the fair value of the loan was determined using the net present value of the interest-free component of the loan, assuming a discount rate of 6%. The discounted

loan amount is being accreted to the principal amount through annual accretions with an offsetting charge to interest expense.

(c) Convertible debentures:

In December 2003, the Company completed a private placement of $2,000 principal amount of secured convertible debentures. During 2004, the proceeds were received, and an additional $600 of secured convertible debentures were issued with costs of $216 recorded as deferred financing costs. The debentures were repaid in the amount of $2,860 in December 2004 with the difference from book value of $761 recorded as debt settlement expense. The equity component of the debentures was $1,250 and the difference between this and the fair value of the holder conversion option, or $110, was credited to retained earnings and the carrying value of the equity component has been eliminated. The unamortized amount of deferred financing costs relating to the debentures of $108 was written off as a component of financing costs for the year.

9. Pension obligation:

Prior to December 21, 2004, the Company did not sponsor any pension plans. HBMS maintains several non-contributory and contributory defined benefit pension plans for its employees.

The Company uses a December 31 measurement date for all of its plans. For the Company's significant plans, the most recent actuarial valuations filed for funding purposes were performed as at December 31, 2004. For these plans, the next actuarial valuation required for funding purposes will be performed as at December 31, 2005. Any actuarial gains or losses over 10 per cent of the greater of the obligation and the fair value of assets are amortized over the expected service life of the plan population.

Information about the Company's non-contributory and contributory defined benefit plan is as follows:

	2005	2004
Obligations and funded status:		
Change in pension obligation:		
Obligation, as at January 1	$ 217,812	$ —
Obligation, at December 21, 2004	—	217,432
Service cost	7,426	607
Interest cost	12,754	345
Employee contributions	156	—
Actuarial loss	15,823	—
Flex account balance at end of year	1,544	—
Benefits paid	(10,743)	(572)
Obligation, at December 31	244,772	217,812
Change in pension plan assets:		
Fair value of plan assets, at January 1	147,725	—
Fair value of plan assets, at December 21, 2004	—	146,942
Actual return on plan assets	20,712	283
Employer contributions	14,634	1,072
Employee contributions	156	—
Flex account balance at end of year	1,544	—
Benefits paid	(10,743)	(572)
Fair value of plan assets, at December 31	174,028	147,725
Unfunded status of plans at end of year	(70,744)	(70,087)
Unamortized net actuarial loss	5,646	—
Net amount recognized at December 31	$ (65,098)	$ (70,087)

As a result of the closure of the Ruttan mine, the Company plans to settle its obligations under the pension plans for the former employees of the Ruttan mine through the purchase of insurance contracts by which the insurer assumes all of the Company's risks and obligations under the plans.

Pension expense includes the following components:

	2005	2004
Service cost	$ 7,426	$ 607
Interest cost	12,754	345
Actual asset return (gain)	(20,712)	(283)
Actuarial loss	15,823	—
Costs arising in the period	15,291	669
Difference in costs arising and recognized in period:		
Return on plan assets	10,176	—
Actuarial loss	(15,823)	—
Other employee future benefit expense	9,644	669
Defined contribution pension	227	5
	$ 9,871	$ 674

(a) Additional information:

The weighted average assumptions used in the determination of the accrued benefit expense and obligations were as follows:

	2005	2004
To determine the net benefit expense for the year:		
Discount rate	5.8%	5.8%
Expected return on plan assets	7.0%	7.0%
Rate of compensation increase	4.7%	4.7%
To determine the accrued benefit obligations at the end of the year:		
Discount rate	5.0%	5.8%
Rate of compensation increase	3.4%	4.7%

The Company's pension cost is materially affected by the discount rate used to measure obligations, the level of plan assets available to fund those obligations and the expected long-term rate of return on plan assets.

The Company reviews the assumptions used to measure pension costs (including the discount rate) on an annual basis. Economic and market conditions at the measurement date impact these assumptions from year to year.

Establishing the expected future rate of return on pension assets is a judgmental matter. The Company considers the following factors in determining this assumption:

(i) Duration of pension plan liabilities; and

(ii) Types of investment classes in which the plan assets are invested and the expected compound returns on those investment classes.

(b) Plan assets:

The pension plan asset allocations, by asset category, are as follows:

	2005		2004	
	Weighted average	Target	Weighted average	Target
Equity securities	58%	57%	59%	57%
Debt securities	42%	43%	41%	43%
	100%	100%	100%	100%

The Company's primary quantitative investment objective is to maximize the long-term real rate of return, subject to an acceptable degree of investment risk, and the preservation of principal. Risk tolerance is established through consideration of several factors, including past performance, current market conditions and the funded status of the plan.

With the exception of fixed income investments and non-North American equities, the plan assets are actively managed by investment managers, with the goal of attaining returns that are in excess of that which could be realized with passively managed investments. Although the actual composition of the invested funds will vary from the prescribed investment mix, the investment managers have a responsibility to bring items back to the appropriate mix.

(c) Expected cash flows:

The employer contributions (or benefit payments in respect of the supplementary plan) for the year ending December 31, 2006 are expected to be $18,400.

The expected benefit payments for fiscal year ending:

	Benefits Paid
2006	$ 9,000
2007	9,200
2008	9,600
2009	10,300
2010	11,200
2011 - 2015	65,000

10. Other employee future benefits:

Prior to December 21, 2004, the Company did not sponsor any post-employment benefit plans. HBMS sponsors several such plans and uses a December 31 measurement date. Information about the Company's post-retirement and other post-employment benefits is as follows:

	2005	2004
Obligations and funded status:		
Change in other employee future benefits:		
Obligation, at January 1	$ 59,941	$ —
Obligation, at December 21, 2004	—	59,870
Service cost	1,593	22
Interest cost	3,506	104
Actuarial losses	11,500	—
Benefits paid	(1,759)	(55)
Obligation, at December 31	$ 74,781	$ 59,941
Change in plan assets:		
Fair value of plan, at January 1	$ —	$ —
Fair value of plan, at December 21, 2004	—	—
Employer contributions	1,759	55
Benefits paid	(1,759)	(55)
Fair value of plan assets at December 31	$ —	$ —
Unfunded status of plans at end of year	$ (74,781)	$ (59,941)
Unrecognized net actuarial loss	11,500	—
Net amount recognized at December 31	$ (63,281)	$ (59,941)

Other employee future benefits expense includes the following components:

	2005	2004
Service cost	$ 1,593	$ 22
Interest cost	3,506	104
Actuarial loss	11,500	—
Costs arising in the period	16,599	126
Unrecognized actuarial loss	(11,500)	—
Other employee future benefits expense	$ 5,099	$ 126

(a) Additional information:

The weighted average assumptions used in the determination of other employee future benefits expense and obligations are as follows:

	2005	2004
To determine net benefit expense for the year:		
Discount rate	6.0%	6.0%
Weighted average health care trend rate	9.2%	9.2%

	2005	2004
To determine benefit obligation at end of year:		
Discount rate	5.1%	6.0%
Weighted average health care trend rate	8.7%	9.2%

The health care cost trend rate used in measuring other employee future benefits was assumed to begin at 8.7% in 2006, gradually declining to 4.6% by 2015 and remaining at those levels thereafter.

If the health care cost trend rate was increased by one percentage point, the accumulated post-retirement benefit obligation and the aggregate service and interest cost would have increased as follows:

	2005	2004
Accumulated post-retirement benefit obligation	$ 15,761	$ 12,558
Aggregate of service and interest cost	1,267	38

If the health care cost trend rate was decreased by one percentage point, the accumulated post-retirement benefit obligation and the aggregate service and interest cost would have decreased as follows:

Accumulated post-retirement benefit obligation	$ 12,129	$ 9,749
Aggregate of service and interest cost	961	28

Any actuarial gains or losses over 10 per cent of the obligation are amortized over the expected service life of the plan population.

(b) Expected cash flow:

Expected benefit payments for each of the next five years through 2010 and the aggregate of the five years thereafter are as follows:

	Benefits Paid
2006	$ 2,000
2007	2,200
2008	2,300
2009	2,500
2010	2,800
2011-2015	18,300

11. Asset retirement obligations:

The Company has completed an independent review, to the feasibility level of accuracy, of its asset retirement obligations assumed through its acquisition of HBMS as described in note 3.

The Company's asset retirement obligations relate to the final reclamation and closure of currently operating mines, mines under care and maintenance, closed and abandoned properties.

	2005	2004
Balance, beginning of year	$ 27,120	$ 769
Obligations settled during the year	(463)	—
Liability assumed through acquisition of HBMS	(50)	26,213
Accretion expense	2,612	138
Balance, end of year	$ 29,219	$ 27,120

Total undiscounted future cash flows required to settle the decommissioning and restoration asset retirement obligations are estimated to be $55.1 million (2004 -$53.9 million). A credit adjusted risk-free rate of 9.625% has been utilized to determine the majority of the obligation recorded in the consolidated balance sheet. Management anticipates that such obligations will substantially be settled at or near the closure of the mining and processing facilities. The current mine plan based on known reserves and resources extends to 2018.

In view of the uncertainties concerning environmental remediation, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement obligation costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable.

Environmental laws and regulations are continually evolving in all regions in which the Company operates. The Company is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

12. Obligations under capital leases:

The Company has entered into capital lease obligations for equipment.

	2005	2004
Lease obligations	$ 12,836	$ 15,057
Less current portion of obligations	3,825	3,338
	$ 9,011	$ 11,719

The following represents the minimum lease payments for equipment used in operations for the next five years:

	2005
2006	$ 4,436
2007	4,428
2008	3,554
2009	1,523
2010	102
	14,043
Less imputed interest	1,207
	$ 12,836

The capital lease average interest rate was 5.2% and is fixed for the term of the leases that expire 2007 to 2010.

13. Income Taxes:

(a) Income tax recovery:

Income tax expense (recovery) differs from the amount that would be computed by applying the statutory income tax rates to income before income taxes. A reconciliation of income taxes calculated at the statutory rates to the actual tax provision is as follows:

	2005	2004
Statutory tax rate	42%	38%
Tax expense (benefit) at statutory rate	$ 31,557	$ (3,921)
Effect of:		
Resource and depletion allowance, net of resource tax recovery	(20,569)	(18)
Temporary differences not recognized	28,946	405
Tax losses (benefit realized) not recognized	(40,674)	3,205
Other permanent differences	1,798	329
Recognition of prior years' temporary differences	(11,858)	(473)
Income tax recovery	$ (10,800)	$ (473)
Income tax provision applicable to:		
Current taxes	678	(473)
Future taxes	(11,478)	—
Income tax recovery	$ (10,800)	$ (473)

(b) Tax effect of temporary differences:

The tax effects of temporary differences that give rise to significant portions of the future tax assets or future tax liabilities at December 31, 2005 and 2004 are presented below:

	2005	2004
Future income tax assets:		
Property, plant and equipment	$ 218,394	$ 265,675
Pension obligation	23,839	26,016
Other employee future benefits	23,238	22,405
Asset retirement obligations	10,689	9,184
Non-capital losses (see (c) below)	73,560	58,252
Share issue costs	3,140	3,744
Other	440	—
	353,300	385,276
Less valuation allowance	327,100	372,376
Net future tax asset	$ 26,200	$ 12,900
Future income tax liability:		
Derivatives and other timing differences	$ (1,666)	$ (1,290)

The valuation allowance represents management's best estimate of the allowance necessary to reflect the future income tax assets at an amount that the company considers is more likely than not to be realized. Since HBMS had many years of ever increasing timing differences with 2005 the first year of a reduction, the tax asset has been based on only one future year of earnings. This is deemed appropriate due to uncertainties of future metal prices, exchange rates and the magnitude of prior losses, but will continue to be reviewed as circumstances change.

(c) Non-capital losses:

At December 31, 2005, the Company has cumulative non-capital losses of $189,678 in Canada and net operating losses of $11,998 in the U.S.

The non-capital losses expire as follows:

2006	$ 506
2007	355
2008	350
2009	8,691
2010	50,194
2013	61,252
2014	48,267
2015	12,003
2016	8,060
2024	1,042
2025	3,492
2026	7,464

14. Share capital:

(a) Common shares:

Authorized:
Unlimited common shares

Issued:

	2005		2004	
	Common shares	Amount	Common shares	Amount
Balance, beginning of year	77,450,628	$ 120,138	5,661,592	$ 21,379
Issued for debt	—	—	5,334	40
Issued on private placements, net	—	—	2,382,466	7,817
Issued pursuant to public offering	—	—	69,694,778	156,813
Cancellation of repurchase shares	—	—	(340,000)	(336)
Exercise of warrants	4,047,032	12,941	28,030	160
Exercise of options	310,340	1,130	19,334	64
Issued flow through shares	2,999,452	10,000	—	—
Value attributed to warrants issued	—	—	—	(29,465)
Tax effect of flow-through shares	—	—	—	(397)
Share issue costs	—	(598)	—	(13,958)
Elimination of fractional shares	—	—	(906)	—
Stated capital reduction	—	—	—	(21,979)
Balance, end of year	84,807,452	$ 143,611	77,450,628	$ 120,138

On June 22, 2005, the Company completed a private placement of 2,193,000 flow-through common shares at a price of $3.42 per share for aggregate gross proceeds of approximately $7,500. Commission and fees related to the offering was paid to the underwriters resulting in net proceeds of $7,078. The gross proceeds are being used to incur Canadian exploration expenses that will be renounced in favour of the holders for the 2006 taxation year.

On February 22, 2005, the Company completed a private placement of 806,452 flow-through common shares at a price of $3.10 per share for aggregate gross proceeds of approximately $2,500. Commission related to the offering was paid to the underwriters resulting in net proceeds of $2,323. The proceeds are being used to incur Canadian exploration expenses that will be renounced in favour of the holders for the 2006 taxation year.

On December 21, 2004, the Company completed an offering of 63,917,000 subscription receipts at a price of $2.25 per subscription receipt pursuant to a final prospectus dated December 14, 2004, for gross proceeds of $143,813. Net proceeds of the issuance were approximately $133,005. Each subscription receipt entitled the holder to receive one

common share and 15 common share purchase warrants. Every 30 common share purchase warrants entitles the holder thereof to acquire one common share for a period of 5 years from the date of issuance, exercisable at a price of $3.15 per share. The gross proceeds of $2.25 per subscription receipt was allocated on the basis of $2.025 as to each common share and $0.225 as to each one-half of one share purchase warrant.

In connection with the offering, the agents for the offering were issued broker warrants to acquire 3,835,020 common shares at a price equal to 115% of the offering price of the subscription receipts, or $2.589 per warrant, for a period of 24 months to December 21, 2006.

Broker warrants issued in connection with the Company's offering of subscription receipts on December 21, 2004 were exercised during the year ended December 31, 2005 aggregating the following amounts: 89,028,543 warrants to purchase 2,967,618 common shares for proceeds of $7,679.

Under the terms of the agreement for the acquisition of HBMS from Anglo American on December 21, 2004, the Company issued to Anglo American 5,777,778 common shares and 86,666,667 warrants for consideration of $13,000.

On December 21, 2004, the Company completed a 30 for 1 common share consolidation which has been retroactively reflected as if the share consolidation had occurred on January 1, 2002 and is reflected in the following disclosures. The warrants outstanding at the time of the share consolidation were not consolidated.

(i) In addition, the Company completed the following private placements during 2004:

(a) In September 2004, 1,105,666 units at a price of $1.50 per unit for gross proceeds of $1,726. Each unit consists of one common share and 15 common share purchase warrants. Each 30 common share purchase warrants entitles the holder thereof to acquire one common share for a period of two years from the date of issuance, exercisable at a price of $1.80 per share.

In addition, the broker was issued 3,452,000 broker warrants, with each 30 broker warrants exercisable for one common share at a price of $1.50 per share and a one-half of a share purchase warrant for a period of two years from the closing date and paid a commission of $117. Each whole share

purchase warrant entitles the holder to acquire a share at an exercise price of $0.06 per share for a period of two years following the date of issuance. An over-allotment option was provided to the broker to purchase up to 15% of the number of broker units issued at closing at the issue price of $2.70 at any time prior to November 30, 2004. On November 30, 2004, the broker exercised its over-allotment option and purchased an additional 172,600 units at a price of $2.70 per unit. Upon exercise of the over-allotment option, the broker was issued an additional 517,800 broker warrants, with each 30 broker warrants exercisable at a price of $2.70 per unit. Each broker unit is comprised of one common share and 15 broker common share purchase warrants. Every 30 broker common share purchase warrants is exercisable for one common share at an exercise price of $3.60 and one-half of a share purchase warrant for a period of two years from the date of issue. Each whole share purchase warrant entitles the holder to acquire a share at an exercise price of $0.12 per share for a period of two years following the date of issuance.

The former Chairman and Chief Executive Officer of the Company and the former Corporate Secretary purchased 333,333 and 6,667 of these units, respectively. Subsequent to September 30, 2004, the Company and these officers agreed to unwind these transactions, so that the securities comprising the units have been returned to the Company and the Company has returned the purchase price paid for the units.

(b) In June 2004, 1,036,920 units at a price of $5.40 per unit for gross proceeds of $5,599. Each unit consists of one common share and 15 common share purchase warrants. Every 30 warrants entitled the holder thereof to acquire one common share for a period of two years from the date of issuance, exercisable at a price of $6.00 per share. Certain former officers and directors of the Company purchased an aggregate of 795,986 of these units.

(b) Warrants:

	Number	Amount
Warrants outstanding, December 31, 2003	74,894,424	$ 4,433
Issued on private placements	40,140,997	2,380
Issued pursuant to public offering	1,045,421,667	27,181
Issued to agents for public offering	115,050,600	2,078
Warrants repurchased	(5,100,000)	(173)
Exercised	(840,909)	(43)
Cancelled	(88,456)	(6)
Warrants outstanding, December 31, 2004	1,269,478,323	$ 35,850
Issued on private placements	1,727,258	44
Exercised	(121,411,064)	(2,590)
Cancelled	(73,712,059)	(4,373)
Warrants outstanding, December 31, 2005	1,076,082,458	$ 28,931

Warrants outstanding to acquire common shares (30 warrants required to acquire one common share) of the Company at December 31, 2005 are as follows:

Warrants outstanding	Exercise price	Expiry date
768,400	$ 0.12	January 13, 2006
15,553,797	0.20	March 31, 2006
2,566,785	0.06	September 28, 2006
263,330	0.05	September 28, 2006
2,721,923	0.12	November 30, 2006
251,955	0.09	November 30, 2006
26,022,057	0.086	December 21, 2006
1,027,934,211	0.105	December 21, 2009
1,076,082,458		

For purposes of valuation, the fair value of warrants issued prior to December 21, 2004 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 100% for the year ended December 31, 2003 and 125% for the year ended December 31, 2004; risk-free interest rate of 4.5%; and an expected life of two years.

The fair value of the listed warrants and the broker warrants issued on December 21, 2004 was estimated on the date of issuance using the Black-Scholes option model with

the following assumptions: dividend yield of 0%; expected volatility of 40%; risk-free interest rate of 4.25%; and an expected life of five and two years, respectively.

(c) Stock option plan:

Under the Company's stock option plan (the "Plan") approved in June 2005, the Company may grant options up to 10% of the issued and outstanding common shares of the Company to employees, officers, and directors of the Company for a maximum term of ten years. Of the common shares covered by the stock option plan, the first 33 1/3% are exercisable immediately, the next 33 1/3% are exercisable after one year, and the last 33 1/3% exercisable after two years. Shares in respect of which options are not exercised as well as shares in respect of which options are exercised, shall become available for the grant of subsequent options. Except in specified circumstances, options are not assignable and terminate upon the optionee ceasing to be employed by or associated with the Company. The terms of the Plan further provide that the price at which shares may be issued under the Plan cannot be less than the market price of the shares when the relevant options are granted. Certain restrictions apply on the issuance of options pursuant to the Plan.

The fair value of the options granted during 2005 has been estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.2%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 42%; and a weighted average expected life of these options of 4 years.

	2005		2004	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance, beginning of year	663,167	$ 3.60	550,000	$ 5.08
Cancelled	(718,999)	3.71	(334,167)	4.80
Granted	3,865,000	2.63	466,667	3.60
Exercised	(310,340)	2.61	(19,333)	3.30
Outstanding, end of year	3,498,828	$ 2.66	663,167	$ 3.60

On July 5, 2004, the Company repriced an aggregate of 85,833 previously granted options to $3.00. The options were previously exercisable at prices ranging from $3.30 to $7.20 per share with expiry dates from June 13, 2006 to November 27, 2008.

The following table summarizes the options outstanding at December 31, 2005:

Number of options outstanding	Exercise price	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average remaining contractual life (years)
3,229,661	$ 2.59	9.4	916,205	9.4
27,500	3.00	2.9	27,500	2.9
225,000	3.35	9.4	75,000	9.4
5,000	4.50	0.4	5,000	0.4
11,667	7.50	1.7	11,667	1.7
3,498,828	$ 2.66		1,035,372	

The fair value of the options granted during 2004 has been estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.50%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 100% for the year ended December 31, 2003 and 125% for the year ended December 31, 2004; and a weighted average expected life of these options of 4.0 years.

Stock-based compensation amounted to $2,674 and $1,193 for the years ended December 31, 2005 and 2004, respectively and is included in general and administrative expense.

(d) Earnings (loss) per share:

For 2004, the conversion of stock options and warrants in the calculation of fully diluted resulted in the same earnings per share as basic earnings per share.

(e) Stated capital reduction:

On December 8, 2004, a special resolution was passed by the Company's shareholders to eliminate the deficit of the Company at June 30, 2004 by reducing the stated capital by $21,979. This deficit was accumulated in connection with the Company's historical operations and does not relate to the Company's current business mandate.

15. Contingencies:

The Company and its subsidiaries are involved in various claims and litigation arising in the ordinary course and conduct of their business. Since the outcome is uncertain, no amount has been recorded in these consolidated financial statements.

The significant claims and litigation matters are as follows:

(a) Statements of claim were filed against Saskatchewan Power Corporation ("SaskPower"), the Company and Churchill River Power Company Limited ("CRP") on February 10, 1995, seeking an aggregate of $1 billion in compensatory damages and in excess of $100 million in punitive damages. These claims were filed in connection with the use and operation of the Whitesand Dam and the Island Falls Hydro Electric Station in Saskatchewan which were transferred by CRP, formerly a wholly owned subsidiary of the Company, to SaskPower in 1981. Based on the current knowledge of management, in management's opinion, the ultimate resolution of the claims will not be material to the consolidated financial position.

(b) On December 20, 2004, a Statement of Claim was filed by the Peter Ballantyne Cree Nation against SaskPower, The Government of Canada and The Province of Saskatchewan. The action claims damages alleged as a result of the operation and use of the Whitesand Dam and Island Falls Hydro-Electric Station. HBMS and CRP have not been named as parties in the action. It has recently come to our attention that CRP, a former subsidiary of HBMS, which was dissolved, has been revived by SaskPower for the purpose of taking legal action against CRP for alleged breaches by CRP of its obligations under a certain Purchase and Sale Agreement made in 1981. At present, the resolution of any claim that will be advanced against CRP or HBMS is not reasonably determinable.

(c) In May 2004, a number of plaintiffs initiated an action, in the State of North Carolina, against Zochem, Considar Metal Marketing Inc. ("CMM") and a number of other defendants seeking damages in an unspecified amount and alleging that they had been injured as a result of an explosion that occurred at a pharmaceutical plant. The plaintiffs have alleged that Zochem and/or CMM designed, manufactured, sold and supplied chemicals used in the manufacture of a rubber compound that were dangerous, defective and susceptible to causing explosions. HBMS has retained legal counsel in North Carolina and cannot currently assess its potential liability in relation to this claim.

(d) On April 21, 2004, Novawest Resources Inc. issued a claim in the British Columbia Supreme Court seeking unspecified damages against certain defendants, including Hudson Bay Exploration

and Development Company Limited, a subsidiary of the Company. The claim alleges a breach of confidence and claims damages as a result of such breach. The defendants have retained counsel to defend the claim and liability is denied. The likelihood of success of the claim cannot be determined at this time. Based on the current knowledge of management, in management's opinion, the ultimate resolution of the claim will not be material to the consolidated financial position.

16. Risk management using financial instruments:

(a) Foreign currency risk management:

The Company uses forward exchange or currency collar contracts to limit the effects of movements in exchange rates on foreign currency-denominated assets and liabilities and future anticipated transactions. Hedge accounting is applied to the following contracts.

In 2004, the Company paid U.S. $1.2 million to purchase an option giving it the right, but not the obligation, to pay an additional U.S. $2.9 million to purchase U.S. dollar put options. The put options secure the right, but not the obligation, to sell U.S. $4.375 million per quarter at $1.20482 starting in April 2005 and continuing to January 2009. The fair value at December 31, 2005 is estimated to be US$3.5 million; the fair value at December 31, 2004 approximates its carrying value as a result of the December 21, 2004 acquisition.

(b) Credit risk:

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. Substantially all of the Company's accounts receivable are with CMM, a joint venture.

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its derivative contracts. The Company does not obtain collateral or other security to support financial instruments subject to credit risk but mitigates this risk by dealing only with financially sound counterparties and, accordingly, does not anticipate loss for non-performance.

(c) Commodity price risk management:

From time to time, the Company maintains price protection programs and conducts commodity price risk management through the use of forward sales contracts, spot deferred contracts, option contracts and commodity collar contracts.

Through its joint venture interest in CMM, the Company manages the risk associated with forward physical sales where it receives a fixed price regarding zinc and zinc oxide and, accordingly, enters into forward zinc purchase contracts to convert the fixed price to a floating price arrangement. At December 31, 2005, the joint venture had outstanding forward contracts to purchase 11,322 tonnes of zinc at prices ranging from U.S. $834 to U.S. $1879 per tonne with settlement dates in the next three years. The fair value at December 31, 2005 and 2004 approximates its carrying value.

17. Fair value of financial instruments:

The carrying value for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, current portion of long-term debt and current portion of obligations under capital lease approximate their fair value due to their short-term nature.

The fair value of the senior secured debt using discounted cash flows at current market rates is approximately $202,940 (2004 — $223,529).

Derivative financial instruments have been valued at current fair values using quoted market prices or accepted valuation methodologies.

18. Related party information:

(a) During the year ended December 31, 2004, the Company paid $2,317 to two law firms which were associated with two individuals who were former directors of the Company at the time. The payments in 2004 were substantially in respect of services in connection with the acquisition of HBMS and the related financings.

(b) In June 2004, certain individuals who were former officers and directors of the Company at the time purchased an aggregate of 795,986 units in connection with a private placement completed by the Company (note 14a(i)(b)).

(c) In September 2004, the former Chairman of the Company acquired 333,333 units and the then corporate secretary acquired 6,667 units in connection with a private placement

completed by the Company (note 14a(i)(a)). In December 2004, these transactions were reversed.

19. Investment in joint ventures:

Considar Metal Marketing SA ("CMMSA"), an entity incorporated under the laws of the Grand Duchy of Luxembourg, is a joint venture in which the Company holds a 50% interest. The joint venture, together with its wholly owned subsidiary, CMM, carries on the business of providing metal marketing to customers in various metal-related industries.

The following is a summary of the Company's 50% pro rata share of the book value of the assets, liabilities, revenue and expenses of the CMMSA joint venture. Up to the end of 2005, substantially all of the Company's sales were transacted with the joint venture. Effective January 1, 2006, the Company has changed its sales agreement with CMM to an agency agreement for copper and precious metal products, and plans to make a similar change for the zinc and zinc oxide products during the first half of 2006.

Such information is presented prior to intercompany eliminations.

	2005	2004
Assets		
Current assets	$ 33,783	$ 52,535
Unrealized fair value derivative	269	772
Property, plant and equipment	93	112
Liabilities		
Current liabilities	$ 29,177	$ 49,264
Future income taxes payable	1,665	1,290
Sales	$ 352,528	$ 6,898
Costs and expenses:		
Operating, general and administrative	356,867	7,053
Depreciation and amortization	31	2
Gain on derivative instruments	(5,319)	(78)
	351,579	6,977
Earnings (loss) before income taxes	$ 949	$ (79)

Cash flows:		
Operating activities	$ (1,207)	$ 106
Investing activities	(12)	(5)

20. Commitments:

(a) Operating lease commitments:

The Company has entered into various lease commitments for facilities and equipment. The leases expire in periods ranging from one to four years. The aggregate remaining minimum annual lease payments required for the next four years are as follows:

2006	$ 2,413
2007	609
2008	241
2009	106

Through its joint venture interest in CMMSA, as at December 31, 2005, the Company has various lease commitments for facilities and equipment which expire in periods ranging from one to eight years. The aggregate remaining minimum annual lease payments, representing 100% of CMMSA's commitment, required for the next five years are as follows:

2006	$ 204
2007	218
2008	216
2009	218
2010 and thereafter	285

The Company has recorded operating lease expense of $3,746, including $106 for the 50% share of the CMM leases.

(b) Buy-sell commitments:

The Company has a commitment to purchase copper concentrate based on a schedule of payments rather than actual physical delivery. The contract requires delivery of 72,000 dry metric tonnes annually from 2006 to 2008.

The Company also has a long-term agreement for the purchase of 10% of another mine's concentrate, or approximately 13,000 dry metric tonnes in 2006, and 20% of annual production or approximately 26,000 dry metric tonnes each year thereafter. The term of this agreement is from 2006 to 2015 and is subject to certain termination rights effective after December 31, 2008.

Payment for both the above-mentioned purchased concentrates is based on the market price of contained metal during a quotational period following delivery of the concentrate, less a fixed treatment and refining credit. If the Company cannot process the deemed tonnage in a timely manner, management believes the Company will be able to negotiate alternate arrangements for the sale or diversion of the tonnage.

The Company relies partly on processing purchased concentrates to achieve a portion of profits. The continued availability of such concentrates at economic terms beyond the expiry of current existing contracts cannot be determined at this time.

(c) Other commitments and agreements:

(i) On January 1, 2006 the Company entered into an agency agreement with CMM for the Company's copper and precious metals products. As a result of this agreement, the Company retains title to the copper and precious metals until they are ultimately sold to the customers. In order to facilitate this agreement, the Company, in effect, on December 31, 2005 acquired the inventory of CMM. This purchase resulted in a reversal of the originating sales transactions associated with these products. Therefore the net result was the removal of any associated profit margin and inclusion of the associated inventories in the financial statements of the Company.

(ii) On the majority of the Callinan/777 mine, the Company is subject to a royalty payment of $0.25 per ton of ore milled and a net profits interest of $6^2/_3$% of the net proceeds of production if aggregate cash flow for the year and cumulative cashflow are positive. To date, the cumulative cash flow has been negative.

(iii) HBMS has a profit-sharing plan, whereby 10% of the Company's after-tax earnings (excluding provisions or recoveries for future income tax) calculated in accordance with Canadian generally accepted accounting principles for any given fiscal year will be distributed to all employees in the Flin Flon/Snow Lake operations, with the exception of executive officers and key management personnel. This expense has been accrued in these financial statements.

(iv) The Company entered into a security agreement dated March 31, 1999 in favour of the Province of Saskatchewan in respect of its reclamation undertakings in Saskatchewan. As security for the implementation of decommissioning plans in respect of its undertakings in Saskatchewan, the Company has granted to the Province of Saskatchewan a first priority security interest in its mining equipment, buildings and fixtures and a first charge on all proceeds derived from any dealings with such mining equipment, buildings and fixtures. In addition, the Company has a security agreement dated May 7, 2004 in favour of the Province of Manitoba in respect of its reclamation undertakings in Manitoba. As security for the implementation of a decommissioning plan in respect of its undertakings in Manitoba, the Company has granted to the Province of Manitoba a first priority security interest in its mining equipment, buildings and fixtures owned by the Company and located on the lands and a first charge on all proceeds derived from any dealings with such mining equipment, buildings and fixtures. The security interests granted to the Provinces of Saskatchewan and Manitoba rank pari passu.

The Company has completed a study of reclamation costs (see note 11). The Company believes the existing security provided is adequate and sufficient. However, the Company has provided additional security to the provinces in the form of a letter of credit in the amount of $13 million. For 2005, the reports have been submitted to the provinces, and upon completion of their review the appropriate security may be reassessed.

(v) In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions, such as purchase and sale contracts, service agreements and leasing transactions. These indemnification agreements may require the Company to compensate the

counterparties for costs incurred as a result of various events, including environmental liabilities, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications. Management estimates that there are no significant liabilities with respect to these indemnification guarantees.

(vi) The Company has outstanding letters of credit in the amount of $35.2 million (including the above-mentioned amount for environmental reclamation).

(vii) In 2003, the Company established a wholly-owned subsidiary, St. Lawrence Zinc Company LLC ("St. Lawrence"). St. Lawrence was incorporated in the State of New York for the purposes of acquiring the Balmat zinc mine ("Balmat"). On September 24, 2003, St. Lawrence purchased the Balmat zinc mine and related assets located in upper New York State. Total consideration paid consisted of a cash deposit of U.S. $1 million required to assume an environmental bond. In addition, contingent consideration, consisting of US $20 million, was provided for in connection with the acquisition. The contingent consideration will be accounted for as additional purchase price as the contingencies are resolved and the amounts payable become fixed and/or determinable. The contingent consideration is payable out of 30% of the net future cash flow from operations after allowing for reasonable capital and exploration expenditures. A further $5 million is payable if the monthly average special high grade settlement price of zinc, as quoted by The London Metal Exchange, averages $0.70 or greater during any consecutive 24-month period after the closing date and prior to the fifth anniversary of the date on which the seller receives payment of the $20 million.

(viii) Pursuant to a Purchase Agreement dated February 2002, the Company acquired from Regal Mines Limited certain properties and other assets located in Nova Scotia, including lead and zinc mining and milling operations (collectively the "Gays River"). A component of the purchase price was a 2% of net smelter return payable based on operations. The Company has entered into a letter of intent to sell its holding in Scozinc Limited to Acadian Gold Corporation for $7.5 million. The potential sales transaction with Acadian Gold Corporation of Halifax is subject to the satisfaction of certain conditions, including the provision of certain cash

deposits, board approvals, the purchaser completing satisfactory financing agreements, due diligence, the entering into of a definitive sale and purchase agreement and receipt of all necessary regulatory approvals.

21. Change in non-cash working capital:

	2005	2004
Accounts receivable	$ 28,512	$ (8,285)
Inventories	(16,314)	(11,843)
Accounts payable and accrued liabilities	2,181	17,565
Prepaid expenses	(129)	4,328
Interest payable	7,441	508
	$ 21,691	$ 2,273

22. Segmented information:

The Company is an integrated base metals producer and operates in a single reportable operating segment.

The Company's revenue by significant product types:

	2005	2004
Revenues		
Copper[(1)]	$ 351,756	$ 8,277
Zinc	142,690	2,386
Zinc oxide	75,032	1,243
Gold	50,354	1,249
Silver	11,208	309
Other	20,988	(137)
	$ 652,028	$ 13,327

(1) Includes purchased copper of approximately $144,000.

23. Reconciliation of Canadian and United States generally accepted accounting principles:

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP which differ in certain material respects from U.S. GAAP.

If U.S. GAAP were employed, the net earnings (loss) for the years would be adjusted as follows:

	2005	2004
Earnings (loss) for the year based on Canadian GAAP	$ 85,218	$ (9,920)
Impact on loss of U.S. GAAP adjustments:		
Depreciation and amortization (a)	(4,111)	(142)
Accretion of convertible debentures (b)	—	632
Debt settlement expense (b)	—	508
Earnings (loss) for the year under U.S. GAAP	$ 81,107	$ (8,922)
Basic and diluted income (loss) per share under U.S. GAAP	$ 0.99	$ (1.00)
Basic and diluted income (loss) per share under U.S. GAAP	$ 0.67	$ (1.00)
Weighted average number of common shares outstanding		
Basic	82,008,190	8,894,235
Diluted (note 14d)	121,116,832	8,894,235

The following summarizes the Company's adjusted consolidated balance sheet captions conforming to U.S. GAAP:

	2005	2004
Assets:		
Financial derivative asset	$ 4,085	$ —
Property, plant and equipment (a)	373,954	358,520
Liabilities:		
Pension obligation (e)	$ 75,683	$ 70,087
Future income tax liability (c)	3,217	1,290
Shareholders' equity:		
Common shares (d)	$ 164,039	$ 142,117
Retained earnings (deficit) (d)	52,500	(28,607)
Currency translation adjustment	—	—
Accumulated other comprehensive income (loss)	(6,563)	(24)

(a) Depreciation and amortization:

Under Canadian GAAP, amortization of mine development costs using the units of production method is calculated using historical costs plus estimated future underground development costs required to access proven and probable reserves. For U.S. GAAP purposes, amortization of mine development costs is calculated using historical capitalized costs incurred. Mine development costs which benefit the entire mine life are amortized over proven and probable reserves and the remainder of the mine development costs are amortized over the currently accessible proven and probable reserves to which these costs relate.

(b) Convertible debentures:

Under Canadian GAAP, the Company accounts for the convertible debentures in accordance with their substance and, as such, they are presented in the consolidated financial statements in their liability and equity component parts. The debt component is accreted over the life of the debt by way of a charge to interest expense. Under U.S. GAAP, the entire face value of the convertible debentures is treated as debt and interest is based on the coupon rate of 12%.

Under Canadian GAAP, the premium on redemption is calculated by reference to the carrying value of the debt component only and the residual equity component is credited to shareholders' equity. Under U.S. GAAP, the premium on redemption is calculated by reference to the entire face value of the debentures. These debentures were fully redeemed in 2004.

(c) Flow-through shares:

Under U.S. GAAP, when flow-through shares are issued, the proceeds are allocated between the issue of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount that the investor pays for the shares. The shareholders' equity is reduced and a liability is recognized for this difference.

(d) Stated capital reduction:

Canadian GAAP allows for the reduction of the stated capital of outstanding common shares with a corresponding offset to deficit. This reclassification, which the Company

made in 2004, is not permitted by U.S. GAAP and would result in an increase in both share capital and deficit of $21,979 at December 31, 2004.

(e) Pension:

For defined benefit pension plans US GAAP reporting requires the recognition of a minimum of additional pension liability in the amount of the excess of the unfunded accumulated benefit obligation over the recorded pension obligation, with any unrecognized prior service costs as an offsetting intangible pension asset. This difference is recorded as a reduction to the accumulated other comprehensive income. At December 31, 2005 the minimum additional liability was $10,585, thus reducing the accumulated other comprehensive income by $10,585. At December 31, 2004 there was no minimum additional liability to recognize as pensions were fair valued upon the acquisition of HBMS.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2005	2004
Projected benefit obligation	$ 242,773	$ 216,167
Accumulated benefits obligation	233,875	203,415
Fair value of plan assets	171,992	146,014
Accumulated benefits obligations (all defined benefit plans)	$ 235,790	$ 204,964

(f) Comprehensive income:

Comprehensive income is recognized and measured under U.S. GAAP pursuant to Statements of Financial Accounting Standards (SFAS) 130, Reporting Comprehensive Income. This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of two components, net income and OCI. OCI refers to amounts that are recorded as an element of shareholders' equity but are excluded from net income because these transactions or events were attributed to changes from non-owner sources. The following is a summary of the Company's comprehensive income as measured under SFAS 130:

	2005	2004
Income (loss) under U.S. GAAP	$ 81,107	$ (8,922)
Other comprehensive income (loss):		
Change in cumulative translation adjustments	(39)	(24)
Additional minimum pension liability	(10,585)	—
Effective portion of foreign currency hedge	4,085	—
Comprehensive income (loss) based on U.S. GAAP	$ 74,568	$ (8,946)

(g) Joint ventures:

U.S. GAAP requires investments in joint ventures to be accounted for under the equity method, while under Canadian GAAP, the accounts in joint ventures are proportionately consolidated. However, under rules promulgated by the Securities and Exchange Commission, a foreign registrant may, subject to the provision of additional information, continue to follow proportionate consolidation for the purposes of registration and other filings notwithstanding the departure from U.S. GAAP. Consequently, the consolidated balance sheet has not been adjusted to restate the accounting for joint venture under U.S. GAAP. Additional information concerning the Company's interests in joint ventures is presented in note 19.

(h) Stock-based compensation plans:

The Company's stock-based compensation plan is described in note 14c. The Company accounts for all stock-based payments using the fair value-based method under SFAS 123. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital.

(i) Derivative instruments and hedging activities:

Under Canadian GAAP, effective January 1, 2004, derivatives used for non-trading purposes that do not qualify for hedge accounting are carried at fair value on the consolidated balance sheet, with changes in fair value reflected in earnings. Derivatives embedded within hybrid instruments are generally not separately accounted for except for those related to equity-linked deposit contracts, which are not applicable to the Company. Gains and losses on derivative instruments held within an effective hedge relationship are recognized in earnings on the same basis and in the

same period as the underlying hedged items. There is no difference in accounting between Canadian and US GAAP in respect of derivatives that do not qualify for hedge accounting. Unlike Canadian GAAP, however, the Company recognizes all of its derivative instruments (whether designed in hedging relationships or not, or embedded within hybrid instruments) at fair value on the consolidated balance sheet for US GAAP purposes. Under US GAAP the accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For strategies designated as fair value hedges, the effective portion of the change in the fair value of the derivative is offset in income against the change in fair value, attributed to the risk being hedged, of the underlying hedged asset, liability or firm commitment. For cash flow hedges, the effective portion of the changes in the fair value of the derivative is accumulated in OCI until the variability in cash flows being hedged is recognized in earnings in future accounting periods. For both fair value and cash flow hedges, if a derivative instrument is designated as a hedge and meets the criteria for hedge effectiveness, earnings offset is available, but only to the extent that the hedge is effective. Ineffective portions of fair value or cash flow hedges are recorded in earnings in the current period.

(j) Income taxes:

Accounting for income taxes under Canadian and US GAAP is similar, except that income tax rates of enacted or substantively enacted tax law must be used to calculate future income tax assets and liabilities under Canadian GAAP, whereas only income tax rates of enacted tax law can be used under US GAAP. In the periods presented there was no difference in tax rates. The Company has accumulated losses for income tax purposes, and as such, no recognition of the tax implications have been recorded on the US GAAP earnings as income tax expense would be offset by a similar amount of income tax recovery and is considered to be immaterial.

(k) Recent US accounting pronouncements:

(i) In March 2005, the Financial Accounting Standards Board (FASB) issued Financial Interpretation 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or

method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of this statement has not had a material impact on our results of operations or financial position.

(ii) In March 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry", that stripping costs incurred during production are variable inventory costs that should be attributed to ore produced in that period as a component of inventory and recognized in cost of sales in the same period as related revenue. The consensus will be effective for the Company in 2006. The Company is reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements. The EIC in Canada has reached a tentative conclusion on this issue that differs from the EITF consensus. Specifically, it has suggested that the activity of removing overburden and other mine waste minerals in the production phase represents either a component of inventory or a betterment to the mineral property, depending on the benefit received by the entity. The Company is monitoring the developments and will determine the potential impact, if any, on its consolidated financial statements if and when related Canadian guidance is released.

(iii) In June 2005, the FASB issued Statement 154, *Accounting Changes and Error Corrections* which replaces APB Opinion 20 and FASB Statement 3. Statement 154 changes the requirements for the accounting and reporting of a change in accounting principle. Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including the cumulative effect of the new accounting principle in net income of the period of the change. In the absence of explicit transition provisions provided for in new or existing accounting pronouncements, Statement 154 now requires retrospective application of changes in accounting principle to prior period financial statements, unless it is impracticable to do so. The Statement is effective for fiscal years beginning after December 15, 2005, and is not expected to have a material impact on the Company's consolidated financial statements.

(iv) In December 2004, the FASB issued SFAS 123 (Revised 2004), "Share-Based Payment", which requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. In 2005, the FASB released several related Staff Positions ("FSPs") to help clarify and interpret this new guidance. The new rules modify certain measurement and expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", including the requirement to estimate employee forfeitures each period when recognizing compensation expense and requiring that the initial and subsequent measurement of the cost of liability-based awards each period be based on the fair value (instead of the intrinsic value) of the award. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in the periods after adoption. The Company previously elected to expense employee stock-based compensation using the fair value method prospectively for all awards granted or modified on or after January 1, 2003. The new standard is effective January 1, 2006. The Company is assessing the impact of adoption on its consolidated financial position and results of operation, but does not expect it to be material.

(v) SFAS 153, Exchanges of Non-monetary Assets, was issued in December 2004 as an amendment to Accounting Principles Board (APB) Opinion No. 29. SFAS 153 provides guidance on the measurement of exchanges of non-monetary assets, with exceptions for exchanges that do not have commercial substance. Under SFAS 153, a non-monetary exchange has commercial substance if, as a result of the exchange, the future cash flows of an entity are expected to change significantly. Under SFAS 153, a non-monetary exchange is measured based on the fair values of the assets exchanged. If fair value is not determinable, the exchange lacks commercial substance or the exchange is to facilitate sales to customers, a non-monetary exchange is measured based on the recorded amount of the non-monetary asset relinquished. SFAS 153 will be effective for non-monetary exchanges that occur in fiscal periods beginning after June 15, 2005, and is not expected to have a material impact on the Company's consolidated financial statements.

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain

Investments", which nullified 2004 guidance issued by the EITF on determining whether an impairment is other-than-temporary, and effectively reverted back to previous guidance in this area. The FSP generally encompasses guidance for determining when an investment is impaired, how to measure the impairment loss and what disclosures should be made regarding impaired securities. This FSP is effective for the first quarter of 2006 and is not expected to have a material impact on the Company's consolidated financial statements.

In March 2005, the FASB issued FSP FIN 46(R)-5, "Implicit Variable Interests under FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities", to address whether a company has an implicit variable interest in a VIE or potential VIE when specific conditions exist. The guidance describes an implicit variable interest as an implied financial interest in an entity that changes with changes in the fair value of the entity's net assets exclusive of variable interests. An implicit variable interest acts the same as an explicit variable interest except that it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). The guidance did not have a material impact on the Company's consolidated financial statements.

(viii) In September 2005, the EITF reached a consensus on Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty*. This issue addresses the question of when it is appropriate to measure purchase and sales of inventory at fair value and record them in cost of sales and revenues and when they should be recorded as exchanges measured at the book value of the item sold. The EITF concluded that purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another should be combined and recorded as exchanges measured at the book value of the item sold. The consensus should be applied to new arrangements entered into, and modifications or renewals of existing agreements, beginning with the second quarter of 2006. We do not expect the adoption of this statement will have a material impact on our results of operations or financial position.

(ix) SFAS 151, Inventory Costs, was issued in November 2004 as an amendment to Accounting Research Bulletin (ARB) No. 43. SFAS 151 specifies the general principles applicable to the pricing and allocation of certain costs to inventory. Under SFAS 151, abnormal amounts of idle facility expense, freight, handling costs and wasted materials are recognized as current period charges rather than capitalized to inventory. SFAS 151 also requires that the allocation of fixed production overhead to the cost of inventory be based on the normal capacity of

production facilities. SFAS 151 will be effective for inventory costs incurred beginning in the Company's 2006 fiscal year. The Company is presently evaluating the impact of SFAS 151 on the Company's consolidated financial statements.

(l) Recent Canadian accounting pronouncements:

(i) In January the Canadian Institute of Chartered Accountants ("CICA") issued Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments — Recognition and Measurement" and Section 3865, "Hedges". The new standards increase harmonization with US GAAP and will require the following: 1) Financial assets will be classified as either held-to-maturity, held-for-trading or available-for-sale. Held-to-maturity classification will be restricted to fixed maturity instruments that the Company intends and is able to hold to maturity and will be accounted for at amortized cost. Held-for-trading instruments will be recorded at fair value with realized and unrealized gains and losses reported in net income. The remaining financial assets will be classified as available-for-sale. These will be recorded at fair value with unrealized gains and losses reported in a new category of the consolidated balance sheet under shareholders' equity called other comprehensive income ("OCI"); and 2) Derivatives will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value on the consolidated balance sheet. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value will be reported in net income and be substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives' fair value will be initially recognized in OCI and the ineffective portion will be recorded in net income. The amounts temporarily recorded in OCI will subsequently be reclassified to net income in the periods when net income is affected by the variability in the cash flows of the hedged item.

The above guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption will be permitted only as of the beginning of a fiscal year. The impact of implementing these new standards is not yet determinable as it is highly dependent on fair values, outstanding positions and hedging strategies at the time of adoption.

(ii) In October 2005, the Emerging Issues Committee of the CICA (the "EIC") issued Abstract No. 157, "Implicit Variable Interests Under AcG-15" ("EIC-157"), to address whether a company has an implicit variable interest in a VIE or potential VIE when specific conditions exist. An implicit variable interest acts the same as an explicit variable interest except that it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. EIC-157 will be effective in the first quarter of 2006. The implementation of this EIC is not expected to have a material impact on the Company's consolidated financial statements.

(iii) In November 2005, the EIC issued Abstract No. 159, "Conditional Asset Retirement Obligations", to clarify the accounting treatment for a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Under this EIC, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The guidance is effective for the second quarter of 2006 and is to be applied retroactively, with restatement of prior periods. The implementation of this EIC is not expected to have a material impact on the Company's consolidated financial statements.

24. Subsequent events:

(a) Credit Facility

On February 9, 2006, the Company announced completion of a $25 million credit facility with The Bank of Nova Scotia (Scotia Capital). The facility, subject to customary conditions, is secured by inventory and receivables. The Bank of Nova Scotia may consent to increasing the facility to $50 million if certain conditions are met.

(b) Acquisition of White Pine Copper Refinery Inc.

On January 1, 2006, the Company, through HBMS, acquired all of the outstanding common shares of White Pine Copper Refinery Inc. (WPCR) for total purchase consideration of $17.6 million. The acquisition will be accounted for by the purchase method and the result of operations and cash flows will be included during 2006.

The following table summarizes the preliminary allocation of the purchase consideration based on management's current best estimate of the fair value of the assets and liabilities acquired on the date of acquisition:

Current assets (including cash of $873)	$ 2,718
Property, plant and equipment	16,258
Current liabilities	(1,344)
	$ 17,632

Management expects to obtain additional information that may require additional adjustments to amounts shown above for property, plant and equipment, intangible assets and asset retirement obligations, and these potential adjustments may be material.

25. Hudson Bay Mining and Smelting Co., Limited:

A summary of the annual comparative financial information for Hudson Bay Mining and Smelting Co., Limited is as follows:

	2005	2004
Total revenues	$ 652,013	$ 538,433
Net earnings	104,860	50,132
Long-term financial debt (excluding current portion)	200,504	238,586
Total assets	700,579	803,803

26. Comparative figures:

Certain figures, previously reported for 2004, have been reclassified to conform with the basis of presentation adopted in the current year.

QuickLinks

Report of Independent Registered Chartered Accountants

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 3

HudBay Minerals Inc.

Management Discussion and Analysis of Results of Operations and Financial Condition

Fourth Quarter and Year Ended December 31, 2005

March 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Unless the context otherwise suggests, references to "we", "us", "our" and similar terms, as well as references to "HudBay" or the "Company", refer to HudBay Minerals Inc. and its subsidiaries.

This Management's Discussion and Analysis ("MD&A") dated March 21, 2006 and should be read in conjunction with the Company's 2005 Annual Information Form ("AIF") and audited annual consolidated financial statements for the year ended December 31, 2005, and related notes thereto and auditors report thereon, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Additional information regarding the Company is available on SEDAR at www.sedar.com. All figures are in Canadian dollars unless otherwise noted.

HudBay's results for the year ended December 31, 2005 are significantly different from its results for the year ended December 31, 2004 because of its acquisition of HBMS. Therefore, a comparison of the quarter ended December 31, 2005 and September 30, 2005 is included. A comparison of HBMS' results for the twelve month periods ended December 31, 2005 and 2004 is contained in Note 25 to the Company's audited consolidated financial statements for the year ended December 31, 2005.

Our Business

On December 21, 2004, HudBay acquired indirectly all of the outstanding shares of Hudson Bay Mining and Smelting Co., Limited ("HBMS"). The Company is now an integrated mining and metals processing company that operates mines and concentrators in northern Manitoba and Saskatchewan, Canada, is re-opening a mine in New York State, and operates a copper and zinc metal production complex in Flin Flon, Manitoba, exercised an option to purchase a copper refinery in Michigan state, and a zinc oxide production facility in Brampton, Ontario.

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SUMMARIZED FINANCIAL RESULTS

The following table sets out summary consolidated financial information for the Company as at and for the three-month periods ("quarters") ended December 31 and September 30, 2005 and December 31, 2004, as well as for the year ended December 31, 2005, and 2004.

	Quarter Ended Dec 31, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2004[1][4]	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004[1][4]
			($000s except per share amounts)		
Revenue	**173,051**	169,264	13,308	**652,028**	13,327
Earnings (loss)	**43,941**	23,405	(2,858)	**85,218**	(9,920)
Operating cash flow[2]	**57,154**	21,814	(2,629)	**144,862**	(7,228)
Earnings (loss) per common share[3]:					
Basic	**$ 0.52**	$ 0.28	$ (0.18)	**$ 1.04**	$ (1.12)
Diluted	**$ 0.34**	$ 0.28	$ (0.18)	**$ 0.70**	$ (1.12)
Operating cash flow per common share[3]:					
Basic	**$ 0.68**	$ 0.26	$ (0.16)	**$ 1.77**	$ (0.81)
Diluted	**$ 0.44**	$ 0.26	$ (0.16)	**$ 1.20**	$ (0.81)

		Quarter Ended Dec 31, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2004	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004
Total Metal Produced						
Zinc	*tonnes*	**30,520**	25,775	28,348	**114,687**	110,219
Copper	*tonnes*	**23,807**	20,720	21,908	**86,285**	76,894
Gold	*troy oz.*	**25,860**	23,200	26,632	**102,371**	79,018
Silver	*troy oz.*	**401,385**	331,829	376,427	**1,410,512**	1,114,568

	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004[1]
	($000s)	
Selected Financial Information		
Cash and cash equivalents	**141,660**	64,553
Working capital	**209,117**	146,952
Free cash flow[5]	**73,938**	(12,408)
Net debt[6]	**66,669**	176,033
Total assets	**728,753**	642,697
Shareholders' equity	**261,226**	152,766

(1) Excludes results of HBMS prior to December 21, 2004.

(2) Operating cash flow is after changes in non-cash capital items. Operating cash flow per common share is considedred a non-GAAP measure.

(3) As of March 20, 2006, there were 85,631,503 common shares of the Company issued and outstanding, as well as 1,074,190,157 warrants (pre-consolidated basis at 30 warrants exercisable for one common share) exercisable for an aggregate of 35,806,338 common shares and 992 additional warrants. In addition, options exercisable for an aggregate maximum of 3,106,856 common shares were outstanding.

(4) For 2004, the conversion of stock options and warrants in the calculation of fully diluted resulted in the same earnings per share as basic earnings per share.

(5) Operating cashflows of $144,862 less capital expenditures of $70,924.

(6) Current and long term portion of long term debt, Province of Manitoba loan and capital leases ($181,428, $14,065 and $12,836 respectively less cash and cash equivalents of $141,660.

HEALTH, SAFETY, ENVIRONMENT AND PRODUCT QUALITY

Our HBMS facilities maintained their certification in the OHSAS 18001 occupational health and safety management system in 2005. HBMS' Lost Time Accident (LTA) frequency rate per 200,000 hours worked dropped from 0.88 in 2004 to 0.62 in 2005 the best performance in the 76 year history of HBMS. Injury severity also dropped from 37 per 200,000 hours worked in 2004 to 21 in 2005. All safety statistics include HBMS employees and HBMS contractors. Total accidents were reduced from 740 in 2004 to 691 in 2005.



HBMS' operations also maintain registration to the ISO 14001 environmental management system standard and the production and supply of its final products are registered to the ISO 9001 quality standard.

The St. Lawrence Zinc Company, LLC operations at Balmat, previously on care and maintenance since 2001, moved to operations re-commissioning during the fourth quarter of 2005. There were no LTAs at Balmat in 2005. The Balmat operations have commenced work on obtaining certification to both OHSAS 18001 and ISO 14001, with registration targeted for first quarter 2007.

A Sustainability Report is published annually that summarizes Environmental, Health and Safety performance for the Company.

OPERATIONS OVERVIEW

In 2005, our operations consisted of four operating mines, two concentrators, a copper smelter, a zinc plant and a zinc oxide production division.

Mines and Concentrators

777 Mine



The 777 mine is located immediately adjacent to the Company's principal concentrator and metallurgical plant in Flin Flon, Manitoba. In 1999 HBMS commenced development of the 777 mine as part of the $435 million 777 Project and commercial production commenced in January 2004 at a capacity of 1.0 million tonnes, per annum. At January 2006 the mine production is expected to be approximately 1.35 million tonnes per annum.

Ore production at the 777 mine, for the quarter ended December 31, 2005, increased by 10% _compared to the previous quarter, consistent with plans to ramp up production to 1.35 million tonnes per annum by January 1, 2006. Zinc grades improved considerably due to the ability to access higher grade ore. Operating costs in the last quarter increased substantially due to higher operating development and propane costs; however, year-to-year operating costs increased slightly due to increased consumable prices.

Overall on a year-to-year basis, ore production increased by 12% while zinc grades were similar in 2005 compared to 2004; however, copper grades reduced by 23% due to mining areas of lower copper as per the overall mine plan. Gold and silver grades mined in 2005 were similar to 2004.

A total of $25 million in capital expenditures is planned for 2006, compared to $28 million in expenditures for 2005. Production, grades and unit costs, for 2006, within normal fluctuations, expect to be similar to 2005.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Production	*tonnes*	975,895	243,248	263,078	279,258	**308,099**	**1,093,683**
Copper	*%*	2.89	2.23	2.16	2.28	**2.28**	**2.24**
Zinc	*%*	4.50	3.75	4.54	4.34	**5.10**	**4.47**
Gold	*g/tonne*	2.26	1.88	2.29	2.18	**2.06**	**2.09**
Silver	*g/tonne*	23.14	20.57	25.93	23.93	**24.56**	**23.83**
Operating costs	*$/tonne*	37.14	42.20	36.07	32.33	**40.46**	**37.60**

Trout Lake Mine



The Trout Lake mine is located approximately six kilometres from the Company's principal ore concentrator and metallurgical plant in Flin Flon. Commercial production commenced at the Trout Lake mine in 1982. The mine is accessed by a shaft and ramp both from surface and ore from the mine is truck hauled to the Flin Flon concentrator.

Ore production at the Trout Lake mine for the quarter ended December 31, 2005 increased by 2% compared to the previous quarter, copper grade improved and zinc grade decreased consistent with the mining plan. Gold and silver grades also reduced consistent with the mining plan. Operating costs increased in the fourth quarter due to a small increase in operating development due to increased long hole drilling requirements for production and use of propane for the last quarter for heating of mine ventilation.

In 2005, zinc grade improved while copper grade decreased slightly compared with 2004. Gold and silver grades were similar to the prior year. The production grades were consistent with the mine plan. Production tonnage in 2005 was less than 2004 due to the planned reduction in the mining areas available.

A total of $16 million in capital expenditures are planned for 2006 compared to $25 million in capital expenditures in 2005. Production, grades and unit costs, for 2006, within normal fluctuations, expect to be similar to 2005.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Production	*tonnes*	916,097	213,055	219,913	210,802	**214,981**	**858,751**
Copper	*%*	1.46	1.28	1.19	1.29	**1.79**	**1.39**
Zinc	*%*	5.32	6.37	6.51	5.70	**3.86**	**5.61**
Gold	*g/tonne*	1.47	1.55	1.43	1.57	**1.32**	**1.47**
Silver	*g/tonne*	13.58	15.96	14.46	14.63	**13.35**	**14.61**
Operating costs	*$/tonne*	31.21	36.39	31.49	34.81	**39.11**	**35.43**

Chisel North — Mine



The Chisel North mine is approximately 10 kilometres west of the Company's Snow Lake ore concentrator, which is approximately 215 kilometres from Flin Flon. Commercial production commenced at the mine in June 2000. The mine is accessed by ramp and ore from the mine is trucked to the Snow Lake concentrator and concentrate produced is trucked to the metallurgical zinc plant in Flin Flon.

Ore production at the mine for the quarter ended December 31, 2005 decreased by 7% compared to the previous quarter. Production decreased due to less ore being available from mining by long hole stoping. Zinc grade increased slightly consistent with the mine plan. Operating costs also increased slightly due to the usage of propane in winter months and lower production in the fourth quarter.

Ore production increased by 3%, for the year ended December 31, 2005 compared to the prior year, due to availability of production from long hole stopes. Zinc grade declined by 10% consistent with the mine plan. Ore unit costs for 2005 compared to 2004 improved by 8% due to greater availability of ore from long hole stopes.

A total of $6 million in capital expenditures are planned for 2006 compared to capital expenditures of $7 million in 2005. Production, grades and unit costs, for 2006, within normal fluctuations, expect to be similar to 2005.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Production	*tonnes*	327,853	86,545	82,100	87,090	**80,996**	**336,731**
Zinc[(1)]	*%*	9.99	9.64	9.08	8.31	**8.97**	**9.00**
Operating costs	*$/tonne*	45.99	36.28	37.56	47.62	**48.23**	**42.40**

(1) Essentially only zinc is recovered.

Konuto Lake Mine



The Konuto Lake mine is located in Saskatchewan, approximately 24 kilometres from the Company's principal ore concentrator and metallurgical plant in Flin Flon. The Konuto Lake mine was discovered in 1994 and production began in 1999. The mine is accessed by ramp and ore is truck hauled over a dedicated road to the Flin Flon concentrator.

Production at the Konuto mine for the quarter ended December 31, 2005 decreased by 37% compared to the previous quarter. During the quarter, Konuto Lake Mine was closed, as planned, due to the depletion of mineral reserves. The ore grades during the quarter reflect the best grade available from the ore mined. Higher operating costs, in the quarter, are a reflection of lower tonnage mined at the end of the mine life.

Ore grade mined in 2005 was less than in 2004 due to lower grade ore being available to mine towards the end of the mine life. Capital expenditures were minimal however operating costs were higher year-on-year due to lower productivity and higher operating development to access areas necessary to be mined toward the end of the mine life.

The Konuto Lake mine was an excellent source of copper and to a lesser extent zinc, gold and silver for HudBay. The ore tonnage shortfall from the closure of this mine is expected to be substantially supplemented by the planned increase in ore production at the 777 mine in 2006. Konuto was an extremely successful operation with an excellent safety record.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Production	*tonnes*	327,231	87,062	89,986	82,895	**52,522**	**312,465**
Copper	*%*	4.07	4.19	4.47	3.35	**3.30**	**3.90**
Zinc	*%*	2.08	1.39	1.66	2.07	**2.36**	**1.81**
Gold	*g/tonne*	1.92	1.73	1.84	1.33	**1.73**	**1.65**
Silver	*g/tonne*	9.60	8.48	9.28	8.32	**11.46**	**9.15**
Operating costs	*$/tonne*	33.12	40.32	34.81	31.94	**39.80**	**36.42**

Flin Flon Concentrator



The Flin Flon concentrator, produces zinc and copper concentrates from ore mined at the 777, Trout Lake and Konuto Lake mines. As part of the $435 million 777 Project, the capacity of the Flin Flon concentrator was increased to 2.18 million tonnes of ore per annum. The concentrator receives ore from each mine separately and blends the ore prior to grinding.

For the fourth quarter of 2005, the Flin Flon concentrator throughput decreased slightly, compared to the historically higher level in the prior quarter. Copper head grade improved 5% in the fourth quarter while zinc head grade decreased 3% principally as a result of changes in the Trout Lake mine ore grades. The lower zinc head grade and the higher copper head grade resulted in a decrease in zinc recovery. Gold and silver recoveries increased slightly. Unit cost of ore processing increased marginally in the fourth quarter as a result of higher maintenance and propane costs for heating requirements.

In 2005, processed ore increased by 5% while mine supplied copper head grade was 13% lower and zinc head grade was 1% higher than 2004. Gold recovery improved by 8% as a result of optimization work done on the circuit and zinc recovery improved by 4% due to circuit changes during the year. Operating costs improved slightly due to increased processed ore.

A total of $4 million in capital expenditures are planned for 2006 compared to capital expenditures of $2 million in 2005.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Ore processed	*tonnes*	2,156,051	552,829	558,919	584,362	**566,445**	**2,262,555**
Copper ore	*%*	2.46	2.10	2.10	2.13	**2.23**	**2.14**
Zinc ore	*%*	4.50	4.52	4.85	4.44	**4.32**	**4.53**
Gold	*g/tonne*	1.89	1.71	1.87	1.85	**1.75**	**1.78**
Silver	*g/tonne*	17.31	16.95	18.42	18.19	**19.01**	**18.14**
Copper concentrate	*tonnes*	208,961	45,666	44,957	48,763	**49,465**	**188,851**
Concentrate grade	*Cu %*	23.60	23.06	24.27	23.94	**23.99**	**23.82**
Zinc concentrate	*tonnes*	152,453	39,448	44,366	42,488	**38,115**	**164,417**
Zinc grade	*Zn %*	50.42	50.34	52,10	51.40	**52.15**	**51.51**
Copper recov. to Cu conc	*%*	93.0	90.8	92.9	93.7	**93.7**	**92.8**
Gold recov. to Cu conc	*%*	69.6	77.3	78.3	71.8	**72.5**	**74.9**
Silver recov. to Cu conc	*%*	68.1	68.1	66.6	64.6	**66.1**	**66.3**
Zinc recovery to Zn conc	*%*	79.2	79.4	85.3	84.1	**81.2**	**82.6**
Operating costs	*$/tonne*	8.29	8.21	7.68	7.88	**7.95**	**7.93**

Snow Lake Concentrator



The Snow Lake concentrator is approximately 215 kilometres from the Flin Flon metallurgical plants. The facility processes only the Chisel North mine zinc ore and produces zinc concentrate that is trucked to Flin Flon for metallurgical treatment. The concentrator has an ore capacity of approximately 1.2 million tonnes per annum.

For the fourth quarter of 2005, the Snow Lake concentrator's processed ore decreased to match mine production from the Chisel North mine compared to the prior quarter. Zinc recovery increased marginally as a result of a higher zinc head grade from the mine. Unit cost per tonne of ore increased by approximately 25% in the fourth quarter of 2005 as compared to the third quarter, due to minor structural steel repairs of the concentrator building as well as higher costs of reagents

In 2005, processed ore increased by 1% consistent with ore supply from the Chisel North mine. Ore head grade was 10% lower while metal recovery to concentrate was similar. Operating unit ore processing costs were only 4% higher despite increases in steel, fuel and other commodities.

A total of $0.3 million in capital expenditures are planned for 2006 compared to an expenditure of $0.2 million in 2005.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Ore processed	*tonnes*	327,853	85,632	79,496	83,570	**82,729**	**331,427**
Zinc ore	*%*	9.99	9.64	9.09	8.26	**9.00**	**9.00**
Zinc concentrate	*tonnes*	61,825	15,827	13,643	13,058	**14,118**	**56,646**
Concentrate grade	*Zn %*	51.52	50.91	51.68	51.25	**51.21**	**51.25**
Zn recovery to Zn conc	*%*	97.3	97.6	97.5	96.9	**97.1**	**97.3**
Operating costs[(2)]	*$/tonne*	16.69	16.51	17.30	15.82	**19.80**	**17.35**

(2) Operating costs include the cost of trucking concentrates to the Flin Flon metallurgical plant.

Metallurgical Plants

Copper Smelter



The copper smelter treats copper concentrate and produces copper anodes, which are railed to the White Pine copper refinery, where they are electro-refined into market standard cathode copper.

Both domestic produced copper concentrate and purchased copper concentrate are treated at the smelter. Approximately 35% of the concentrate tonnage treated at the copper smelter was purchased concentrate during 2005. Our Company has long term contracts with both Highland Valley Copper mines and Montana Resources, Butte Mine for the purchase of adequate copper concentrate requirements.

The copper smelter facilities include off-loading of rail cars, concentrate storage sheds, roasters, a reverberatory furnace, three converter furnaces and two anode furnaces and an anode casting wheel together with gas handling systems, electrostatic precipitators and a stack.

Copper anode production for the fourth quarter of 2005 increased by 15% compared to the third quarter, resulting in a new quarterly record for smelter production. On a unit cost basis, operating costs were 5% lower in the fourth quarter of 2005 as compared to the third quarter.

Comparing 2005 with 2004 concentrate treated increased by 12% while copper produced also increased by 12%. Gold production, in copper increased 12% and silver by 26% reflecting the precious metal content in concentrate treated. Operating costs per pound of copper produced was the same as 2004 despite considerable carbon based fuel cost pressures.

The smelter plans to proceed with the previously announced 28 day temporary maintenance shutdown during the second quarter of 2006. The maintenance shutdown is primarily to rebuild the reverberatory furnace, which is used to smelt copper and is rebuilt regularly. Management of copper anode inventory between the copper smelter and the White Pine copper refinery will in part, mitigate the impact on annual sales. HBMS mines and concentrators will continue to operate.

A total of $10 million in capital expenditures are planned for 2006, compared to $2 million in 2005, mainly comprising expenditures related to the shutdown.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Domestic sourced	*tonnes*	185,352	48,352	53,038	49,780	**55,172**	**206,342**
Purchased sourced	*tonnes*	98,748	28,839	26,057	28,212	**28,828**	**111,936**
Total	*tonnes*	284,100	77,191	79,095	77,992	**84,000**	**318,278**
Operating costs[(1)]	*$/tonne*	147.28	13952	141.93	153.48	**154.87**	**147.59**
Copper produced	*tonnes*	76,894	20,698	21,060	20,720	**23,807**	**86,285**
Gold	*troy oz.*	79,020	25,774	27,540	23,200	**25,860**	**102,374**
Silver	*troy oz.*	1,114,570	338,295	338,998	331,829	**401,385**	**1,410,507**
Operating costs	*¢/lb. Cu*	24.7	23.6	24.2	26.2	**24.8**	**24.7**

(1) $1 tonne of concentrate treated.

Zinc Plant



The Flin Flon zinc plant facility utilizes leading edge technology and includes a two-stage pressure leach plant, oxygen plant, four steps of solution purification, a new electrolysis plant and a casting plant. An oxygen plant supplies oxygen to the pressure leach process. The facility produces special high grade zinc as the final product.

For the fourth quarter of 2005, operating costs in the zinc plant, on a unit cost of zinc metal produced basis, decreased by 6% compared to the third quarter as zinc production increased by approximately 4,700 tonnes (or 18%), the difference reflecting the lower production and maintenance activities that were carried out in the third quarter. In the fourth quarter, the zinc plant achieved a quarterly record for zinc cathode metal production.

In 2005, zinc concentrate treated increased by 2% and zinc produced increased by 4% resulting from higher concentrate zinc grade treated and improved metal recovery. Unit operating cost per pound of metal produced was similar to the prior year.

During the second quarter of 2006 and similar to 2005, a routine ten-day annual maintenance shutdown is planned for the oxygen plant, autoclave, thickener and cellhouse maintenance. No impact on annualized zinc metal production as a result of the maintenance shutdown is expected. HBMS' mines, concentrators and other process plants will continue to operate.

A total of $5 million in capital expenditures are planned for 2006, compared to $3 million in 2005.

		Year Ended Dec 31, 2004	Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sep 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Domestic	*tonnes*	219,561	58,809	58,105	51,339	**59,856**	**228,109**
Purchased	*tonnes*	3,488	—	—	—	**—**	**—**
Total	*tonnes*	223,049	58,809	58,105	51,339	**59,856**	**228,109**
Operating costs[(1)]	*$/tonne*	278.69	272.32	275.45	304.76	**290.98**	**285.31**
Zn produced	*tonnes*	110,219	29,204	29,188	25,775	**30,520**	**114,687**
Operating costs	*¢/lb. Zn*	25.6	24.9	24.9	27.5	**25.9**	**25.7**

(1) Represents operating costs per tonne of zinc concentrate treated.

Zinc Oxide Facility — Zochem



Zochem is the zinc oxide production facility of HBMS, located in Brampton, Ontario. Zochem is a stand-alone operation that off-takes between 32,000 tonnes and 41,000 tonnes of our Flin Flon zinc plant zinc metal production per annum.

In 2005, Zochem was the third largest producer of zinc oxide in North America, accounting for approximately 20% of the North American market.

The Zochem facilities have a total capacity of 45,000 tonnes per annum of zinc oxide. In 2005, Zochem consumed approximately 35,000 tonnes of the zinc of which 31,760 tonnes was from HBMS, and sold 43,230 tonnes of zinc oxide.

A total of $2 million in capital expenditures is planned for 2006, compared to $0.3 million in 2005. The increased expenditure is related to productivity improvement by the installation auto palletizing machines, to bag zinc oxide.

COMMODITY MARKETS

The following market analysis is provided by HudBay and is obtained from various information sources, which reflects the views of HudBay management.

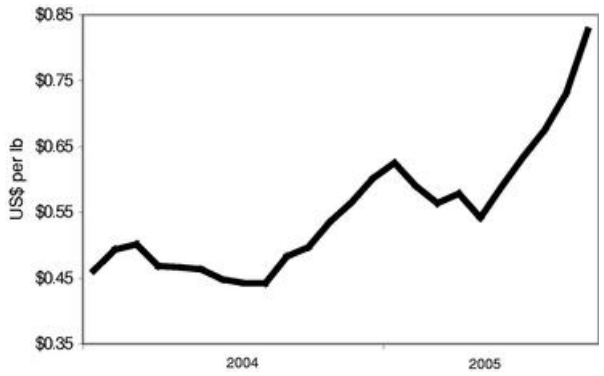
Zinc

Of the five products the Company produces, earnings are most sensitive to fluctuations in the price of zinc (see Sensitivity Analysis). In 2005, the LME price of zinc averaged US $0.63 a pound, increasing over the year to US $0.87 a pound at year end. In early 2006, zinc continued its upward trend and reached a high of $1.12.

Zinc inventories on the London Metal Exchange (LME) fell by 235,300 tonnes or almost 40% during the year as zinc consumption exceeded production capacity.

The tight supply of zinc in 2005 and early 2006 is evidenced by the increase in the associated premiums received for the direct sale of zinc metal.

LME Zinc Cash Settlement Price Monthly Average
January 2004 to December 2005



The outlook for zinc price remains positive with world zinc metal demand expected to continue to exceed supply.

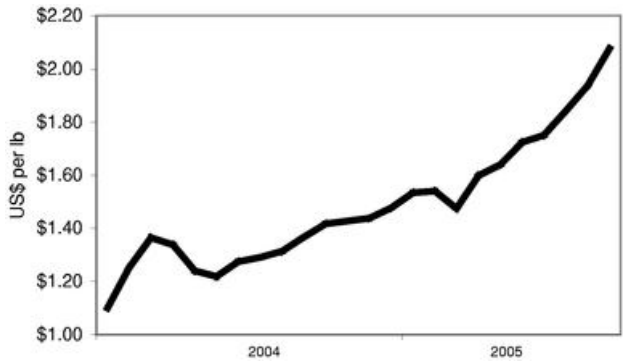
Copper

Global copper consumption was largely unchanged in 2005. The LME price of copper averaged US $1.67 a pound in 2005, increasing over the year to US $2.08 a pound at year end.

Copper inventories in warehouses increased by 32,000 tonnes in 2005, but remain below what may be considered a critical level throughout the world.

The higher price has allowed the re-start of mine production that was closed or cut back in prior years due to poor economics, and this added an estimated half million tonnes to supply in 2005. However, a capacity imbalance was created as this increased mine supply exceeded smelter capacity.

LME Copper Cash Settlement Price Monthly Average
January 2004 to December 2005

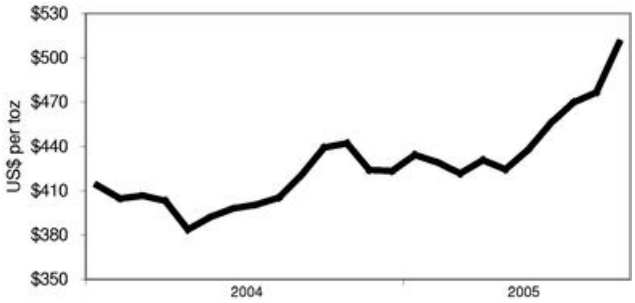


This capacity imbalance is expected to moderate in 2006 and combined with higher metal inventories could moderate copper prices in the near term.

Gold

Gold prices averaged US $445 per ounce and followed an upward trend in 2005, closing the year at US $513 per ounce. In 2006, the trend has continued with gold reaching nearly US $572 per ounce in February 2006. The prospects for the gold price remain favourable, particularly in response to any global economic/political uncertainty and a resurgence in gold as an investment vehicle.

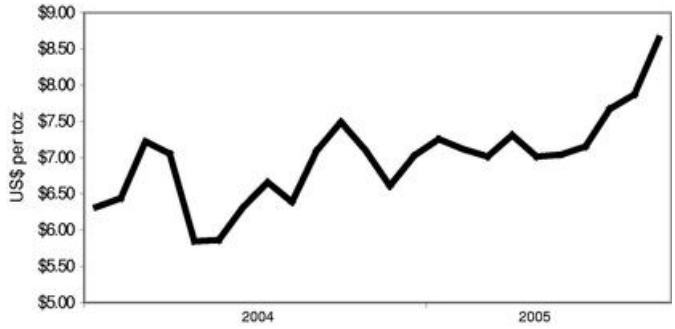
London Gold PM Fix Monthly Average
January 2004 to December 2005



Silver

In 2005, silver prices increased primarily due to increasing investment and industrial demand, along with higher world economic growth. As a result of higher silver prices in 2005, demand from jewelry and silverware fabrication decreased. Early in 2006, silver prices have exceeded US$10 an ounce and for the remainder of the year, we believe silver prices may remain at these higher levels.

London Silver Bullion Price Monthly Average
January 2004 to December 2005



Foreign Exchange

Since the revenue from our five products are substantially in US dollars, the Company is affected by the fluctuations in the Cdn/US dollar exchange rate. The Company's US debt, US denominated copper concentrate purchases and its US dollar put options partially mitigates the impact of the Cdn/US dollar fluctuations on the Company's earnings; however, a weaker US dollar would, overall, cause our earnings to decrease. The Canadian dollar has out-performed most major currencies in 2005, including the US dollar. We expect the Canadian dollar to remain strong in 2006.

Electricity, Heavy Fuel Oil and Natural Gas

Electricity costs per kWh, in the longer term, may increase. Prices of heavy fuel and natural gas are subject to price movements over shorter periods of time. In 2005, the Company consumed almost 1 billion kWh's of electricity with the zinc plant being the largest consumer of electricity in HudBay's operations. Additionally we consume almost 250,000 barrels of heavy fuel oil and almost 25 million litres of propane at our mines and plants, annually. Changes in the cost of these commodities affect our costs to produce our products. Consumption levels of these commodities in 2006 are expected to increase largely due to the re-opening of the Balmat mine as well as the purchase of the White Pine copper refinery in 2006.

Inflationary Cost Pressures

Similar to other mining companies, HudBay has experienced significant inflationary cost pressures with increasing prices of consumables such as steel, explosives and rubber products.

We plan to continue focusing on procurement and continuous improvement initiatives to mitigate the impact of consumables, including controlling usage and extending the life of plant and equipment, where possible.

Other Capital Expenditures

In addition to the capital expenditures at the mines and plants described in the Operations Overview section and excluding the reopening of the Balmat mine, the Company plans to spend approximately $12 million in 2006 ($7 million of which relates to the expansion of the Flin Flon tailings impoundment system) compared to $3 million in 2005.

SENSITIVITY ANALYSIS

The following table shows the approximate impact of metal prices and exchange rates, using 2005 as a basis, on the Company's 2005 net income.

	A change of:		Would change our 2005 net income by: (Cdn $ million)	Would change our 2005 earnings per share by:[1] (Cdn $/share)
Metal Prices				
Zinc (lb.)	US $	0.10	$ 29	$ 0.35
Copper (lb.)	US $	0.10	$ 12	$ 0.14
Gold (troy oz.)	US $	10.00	$ 1	$ 0.01
Silver (troy oz.)	US $	1.00	$ 1	$ 0.01
Exchange Rates				
US $1 to C $1	C $	0.01	$ 3	$ 0.04

(1) Based on undiluted common shares outstanding of 84 million.

MINERAL RESERVES AND INFERRED MINERAL RESOURCES

Estimated January 1, 2006 mineral reserves at our 777, Trout Lake and Chisel North Mines in Northern Manitoba and our Balmat Mine project in New York State, in compliance with NI 43-101, was 21,357,000 tonnes at 1.8 g/t gold, 21.1 g/t silver, 2.0% copper and 5.3% zinc.

Mine	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
777					
Proven	3,474,000	2.5	28.4	2.4	4.7
Probable	12,261,000	2.1	25.7	2.5	4.4
Trout Lake					
Proven	1,433,000	1.0	11.1	1.4	4.7
Probable	1,058,000	1.7	20.5	2.5	4.0
Chisel North					
Proven	661,000	—	—	—	8.9
Probable	761,000	—	—	—	8.4
Balmat					
Proven	686,000	—	—	—	10.6
Probable	1,023,000	—	—	—	11.4
Total Proven	**6,254,000**	**1.6**	**18.3**	**1.6**	**5.8**
Total Probable	**15,103,000**	**1.8**	**22.3**	**2.2**	**5.0**
Total Reserves	**21,357,000**	**1.8**	**21.1**	**2.0**	**5.3**

Separately, as of January 1, 2006, we estimated aggregate inferred mineral resources at our 777, Trout Lake and Chisel North Mines in Northern Manitoba and our Balmat Mine project in New York State at 4,940,000 tonnes at 1.2 g/t gold 19.1 g/t silver, 1.0% copper and 7.45% zinc.

The categorization of measured and indicated mineral resource is determined in a 12-step process, which includes determination of the integrity and validation of the data collected, including, confirmation of specific gravity, assay results and methods of data recording. The process also includes determining the appropriate geological model, selection of data and the application of statistical models including probability plots and restrictive kriging to establish continuity and model validation. The resultant estimates of measured and indicated mineral resources are converted to proven and probable mineral reserves by the application of mining dilution and recovery, as well as the determination of economic viability using historical operating costs. Other factors such as depletion from production are applied as appropriate. Long term metal prices, including premiums used for economic viability of the 2006 mineral reserves, were US $400 oz. gold, US $6.00 oz. silver, US $0.91 lb. copper and US $0.52 lb. zinc.

Prior period mineral reserves are filed in the Canadian Securities Administrators SEDAR filing system in the Renewal Annual Information Form of HudBay Minerals Inc., March 29, 2005.

FINANCIAL REVIEW

The following table sets forth our selected consolidated financial information for each of the eight most recently completed quarters. Note that the results reflect the acquisition of HBMS as of December 21, 2004.

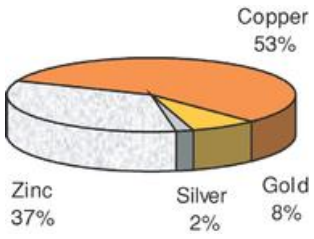
	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	($000s, except per share information)							
Net Revenue	**173,051**	169,264	158,188	151,525	13,308	6	7	6
Earnings (loss)	**43,941**	23,405	8,691	9,181	(2,891)	(3,282)	(2,083)	(1,664)
Per Common Share								
Basic	**0.52**	0.28	0.11	0.12	(0.18)	(0.45)	(0.30)	(0.29)
Diluted[1]	**0.34**	0.28	0.11	0.12	(0.18)	(0.45)	n/a	n/a

With the exception of ten days in December 2004, HudBay had no production and was essentially a development stage enterprise. As such, discussion and analysis of 2005 compared to 2004 has been limited and, additionally, a comparison of results achieved in the third and fourth quarters of 2005 has been provided.

Revenue

Revenues are affected by sales volumes, commodity prices and currency exchange rates. For 2005, total revenue was $652.0 million, resulting from the sale of 114,682 tonnes of zinc (which includes 31,760 tonnes to our Zochem division), 78,070 tonnes of copper, 95,511 ounces of gold and 1,321,784 ounces of silver.

Total sales revenue for the quarter ended December 31, 2005 was $173.0 million from sales of approximately 17,644 tonnes of copper, and 29,598 tonnes of zinc which included 9,226 tonnes to our Zochem facilities for use in the production of zinc oxide. In the fourth quarter of 2005, Zochem had sales of approximately 11,010 tonnes of zinc oxide. Revenues for the quarter also included sales of approximately 21,783 ounces of gold, and 358,434 ounces of silver. The Company's re-negotiated contract with CMM for conversion to an agency agreement from a sales agreement for sale of copper and precious metals resulted in lower sales volume of these products in the fourth quarter (refer to HudBay's Agency Arrangement section below).



(1) Based on the treasury method of calculating diluted shares outstanding.

Over the quarter, realized prices averaged US $2.04/lb. copper, US $0.79/lb. zinc, US $465/troy oz. gold, and US $7.66/troy oz. silver. The Canadian to US dollar exchange rate averaged Cdn $1.17 per US $1.00 for the quarter.

	2005	Average Prices[1]	2004[2]
Realized Metal Prices:			
Zinc (US$/lb.)	**0.65**	0.63	0.49
Copper (US $/lb.)	**1.72**	1.67	1.35
Gold (US $/troy oz.)	**445**	445	387
Silver (US $/troy oz.)	**7.28**	7.31	6.66

HudBay's Agency Arrangement

Previous to this change, HudBay's operating subsidiary HBMS recognized 100% of its sales when its product was shipped from the Flin Flon operations and sold to its 50% owned metal sales joint venture, Considar Metal Marketing ("CMM").

In order to enhance the Company's credit capacity under its credit facility, by increasing account receivables and inventory, the Company re-negotiated its contractual relationship with CMM.

As at January 1, 2006, the Company changed its relationship with CMM from a sales to an agency arrangement, whereby copper and precious metal inventory are owned by the Company until sold to customers.

Under the agency contractual arrangement, HudBay will retain title to these metals until they are sold to third party customers. The associated one-time change in sales at HBMS's Flin Flon location to the third party customer arrangement is approximately 7 weeks. The approximate financial impact on this contractual change with CMM for copper and precious metals for the fourth quarter and year ended 2005 is shown in the following table.

Proforma Impact of Agency Arrangement on Selected Items

	As Reported Q4	Financial Impact[2]	Proforma Q4	Proforma 2005
	(000's except per share information and metal sold)			
Sales	$ 170,000	$ 36,000	$ 206,000	$ 685,000
Operating Expenses	$ 122,000	$ 27,000	$ 149,000	$ 506,000
Net Earnings	$ 44,000	$ 9,000	$ 53,000	$ 94,000
EPS — Basic	$ 0.52	$ 0.10	$ 0.62	$ 1.15
EPS — Diluted	$ 0.34	$ 0.07	$ 0.41	$ 0.78
Accounts Receivable	$ 45,000	$ 36,000	$ 81,000	$ 81,000
Inventories	$ 117,000	$ (27,000)	$ 90,000	$ 90,000
Copper Tonnes Sold	17,644	5,500	23,144	83,570
Gold Ounces Sold	21,783	8,000	29,783	103,511

In the first half of 2006, the Company plans to convert the remaining products of zinc and zinc oxide to the same agency arrangement. The financial impact of a similar delay is estimated to be 3 to 4 weeks of revenue of $8 to $9 million and $7 to $8 million in costs resulting in lower earnings of $1 to $2 million.

Total revenue for the fourth quarter of 2005 remained similar to the third quarter, despite the impact of changes to the CMM agency arrangements as described above, primarily due to higher metal prices.

Expenses

Operating Expenses

Total operating expenses in 2005 were $480.5 million. Operating expenses in the fourth quarter of 2005, of $123.3 million, decreased by approximately 3% compared to the third quarter of $125.4 million. This decrease primarily related to lower sales volumes from the relationship change with the Company's joint venture marketing company offset by increased profit sharing expenses (10% of net profit distributed among eligible employees) of $2.0 million due to higher profits, an increase in concentrate purchase costs of $7.4 million, primarily due to increases in metal prices, and other cost increases of $5.5 million in operations and mining, offset partly by increased production. For the quarter ended December 31, 2005, operating costs in the mines and concentrators increased by approximately 13% related to increased operation development and the zinc plant and copper smelter increased by approximately 10% compared to the previous quarter, due partly to record quarterly production for copper anode and zinc cathode. This increase resulted from additional maintenance costs and higher costs of consumables (steel, heavy fuel oil, grinding media, etc.)

General and Administration

Total general and administrative ("G&A") expenses for 2005 were $19.6 million. G&A expense for the quarter ended December 31, 2005 was $8.2 million compared to $3.1 million for the quarter ended September 30, 2005. Costs for the fourth quarter of 2005 were higher as total G&A expenses included consulting costs for the fair valuation of the acquisition of HBMS of approximately $0.9 million, stock based compensation of $2.7 million, and additional legal and audit fees associated with both recent compliance requirements and the fair valuation of HBMS in the amount of approximately $0.5 million.

(4) Except for EPS, dollar figures have been rounded to the nearest thousands.

Exploration Expenses

The previously announced program of exploration on the Company's lands in Manitoba and Saskatchewan continued during the quarter. The program provides for $10 million of planned exploration in the Flin Flon greenstone belt during 2005 and the first quarter of 2006, of which approximately $5.9 million has been spent as of December 31, 2005. For the year ended December 31, 2005, exploration expenditures of $11.3 million as shown on the income statement include $5.9 million relating to flow-through activity, $4.1 million for Balmat feasibility costs (including exploration), and $1.3 million of other costs (primarily non flow-through related expenses).

Foreign Exchange Loss

In 2005, the Company incurred a foreign exchange loss of $2.3 million (including amortization of deferred option premiums). This relates primarily to the change in the value of the Company's cash balance which is held largely in US $ deposits, and was converted to Canadian dollars at a year-end exchange rate of Cdn $1.16 per US $1.00, compared to higher rates earlier in the year. For the quarter ended December 31, 2005, there was a slight overall movement in foreign exchange rates resulting in a small loss.

Operating Earnings

For the quarter ended December 31, 2005, operating earnings were $25.5 million compared to $19.1 million for the three months ended September 30, 2005. The favourable variance of $6.4 million is attributable to higher metal prices and a receipt of business interruption insurance of $2.0 million from a prior claim, more than offset by the cost associated with the Company's relationship change with CMM of $9 million and increased costs for concentrates and operating expenses.

Foreign Exchange — Long Term Debt

For the year, the Company recorded a foreign exchange gain on long-term debt of $6.8 million on the dollar movements related to the US dollar denominated debt. For the quarter ended December 31, 2005, the Company recorded a minor foreign exchange loss on long-term debt compared to a gain of $11.0 million in the previous quarter. This gain was a result of the change in US $ denominated debt as valued at month end exchange rates.

Gain on Derivative Instruments

In the quarter ended December 31, 2005, the Company recorded a $3.2 million gain on derivative instruments compared to a $1.5 million gain for the quarter ended September 30, 2005. The derivatives are forward contracts of zinc and to a lesser extent zinc oxide, placed in conjunction with CMM fixed price sales contracts to convert the fixed price zinc sales contract to floating prices.

Tax Recovery

For the year, the Company recorded a recovery of taxes of $10.8 million, primarily related to the increase in the tax asset. The tax asset has been adjusted to reflect the future income tax assets at an amount that the Company considers is more likely than not to be realized. Since HBMS had many years of tax losses, the tax asset has been based on only one future year of earnings. One year is considered appropriate due to the uncertainties of future metal prices, exchange rates and the magnitude of prior losses, but will continue to be reviewed as circumstances change.

As a result of this adjustment being made in the quarter ended December 31, 2005, the Company recorded a non-cash tax recovery of $20.0 million compared to an expense of $3.8 million in the quarter ended September 30, 2005. The Company has sufficient tax pools to shelter income and does not anticipate significant cash income taxes in the foreseeable future.

Quarter Ended December 31, 2005 Compared to Quarter Ended September 30, 2005

For the quarter ended December 31, 2005, net earnings were $43.9 million compared to $23.4 million for the three months ended September 30, 2005. The net $20.5 million variance is summarized broadly as follows: decreased sales volumes due to change in agency arrangements offset by increased metal sales prices, increase in derivative gains of $1.7 million, and a settlement of a business interruption claim from prior years of $2.0 million; a reduction in foreign exchange losses on operating of $2.7 million and a reduction in foreign exchange gains on long-term debt of $11.0 million, an increase to the tax asset of $13.3 million and a reduction to previously recorded tax expense of $6.7 million (as compared to a tax expense of $3.8 million in the third quarter); and cost increases for G&A of $2.5 million, increases to the profit sharing expenses of $2.0 million due to higher profits, increases in concentrate purchase costs of $7.4 million, primarily due to increases in metal prices, and other cost increases of $5.5 million in the operating areas primarily related to production volume and amount of mine operating development.

The following shows the variances from third quarter to fourth quarter net earnings:

Earnings — Third Quarter	$ 23.4
CMM Agency contractual change with CMM	(9.0)
Increase in revenue	31.4
Foreign exchange	(8.3)
Tax recovery	23.8
General and administrative expenses	(2.5)
Other	(14.9)
Earnings — Fourth Quarter	$ 43.9

Quarter Ended December 31, 2005 Compared to Quarter Ended December 31, 2004

Net income for the quarter ended December 31, 2005 was $43.9 million compared with a loss of $2.9 million for the quarter ended December 31, 2004.

Total sales revenue for the quarter ended December 31, 2005 was $169.7 million from sales of metals produced. The Company had minimal metal sales in the fourth quarter of 2004 resulting from the acquisition of HBMS on December 21, 2004.

Operating costs for the quarter ended December 31, 2005 increased to $121.9 million from $11.5 million for the quarter ended December 31, 2004. Costs in the fourth quarter of 2004 primarily related to care and maintenance costs of the Balmat mine and the Gays River mine property, together with 10 days operations of HBMS.

CASH COST PER POUND OF ZINC SOLD

HudBay's cash cost of zinc sold, net of by-product credits, 2005 was US $0.16 per pound. The Company had minimal metal sales in 2004 with the acquisition of HBMS on December 21, 2004.

Non-GAAP Reconciliation of Cash Cost per Pound of Zinc Sold, Net of By-Product Credits

	Quarter Ended March 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2005	Quarter Ended Dec 31, 2005 (excluding CMM change to Agency)	Year Ended Dec 31, 2005	Year Ended Dec 31, 2005 (excluding CMM change to Agency)
	($000)	($000)	($000)	($000)	($000)	($000)	($000)
Expenses	C$ 135,049	C$ 136,726	C$ 150,140	**C$ 147,554**	**C$ 174,554**	**C$ 569,469**	**C$ 596,469**
Non-cash operating costs							
Depreciation and amortization	(12,724)	(13,228)	(13,618)	**(13,530)**	**(13,530)**	**(53,100)**	**(53,100)**
Stock-based compensation	0	(1,354)	(591)	**(729)**	**(729)**	**(2,674)**	**(2,674)**
Accretion and other non-cash	(652)	(649)	(655)	**(656)**	**(656)**	**(2,612)**	**(2,612)**
Exploration	(569)	(3,216)	(3,930)	**(3,566)**	**(3,566)**	**(11,281)**	**(11,281)**
Foreign exchange gain (loss)	250	424	(2,850)	**(162)**	**(162)**	**(2,338)**	**(2,338)**
	121,354	118,703	128,496	**128,911**	**155,911**	**497,464**	**524,464**
Less: By-product credits[1]	(106,263)	(111,408)	(120,812)	**(111,615)**	**(147,615)**	**(450,097)**	**(486,097)**
Cash cost net of by-products	C$ 15,091	C$ 7,295	C$ 7,684	**C$ 17,296**	**C$ 8,296**	**C$ 47,367**	**C$ 38,367**
Exchange rate (C$/US $)[2]	1.227	1.244	1.200	**1.176**	**1.176**	**1.211**	**1.211**
Cash cost net of by-products	US$ 12,299	US$ 5,864	US$ 6,403	**US$ 14,707**	**US$ 7,054**	**US$ 39,114**	**US$ 31,682**
Zinc sales (000 lbs)	59,739	62,754	65,015	**65,252**	**65,252**	**252,760**	**252,760**
Cash cost per pound of zinc, net of by-product credits	**US$ 0.21**	**US$ 0.09**	**US$ 0.10**	**US$ 0.23**	**US$ 0.11**	**US$ 0.16**	**US$ 0.13**

(1) By-product credits include revenues from sale of copper, gold, silver, the premium on zinc oxide sales and the Company's proportionate share of by-product sales by its marketing joint venture.

(2) Weighted average exchange rate for sales during the period.

Cash cost per pound of zinc, net of by-product credits, is furnished to provide additional information and is a non-GAAP measure that does not have a standardized meaning and is therefore unlikely to be comparable to similar measures presented by other issuers. This measure should not be considered in isolation as a substitute for measures of performance prepared in accordance with generally accepted accounting principles and is not necessarily indicative of operating expenses as determined under generally accepted accounting principles. This measure is intended to provide investors with information about the cash generating capabilities of HBMS' operations. HBMS uses this information for the same purpose. Mining operations are capital intensive. This measure excludes capital expenditures. Capital expenditures are discussed throughout the MD&A and the consolidated financial statements.

All per pound value in the following section are rounded to the closest cent.

The table on the previous page shows a US $0.13 per pound net increase in the cash cost per pound of zinc for the quarter ended December 31, 2005 compared to the quarter ended September 30, 2005. For comparative purposes, the information for the quarter has been adjusted for the impact of the CMM agency change, which would result in only a US $0.01 per pound increase from the prior quarter. The US $0.13 increase per pound of zinc is comprised of unfavourable variances of approximately US $0.31, and a benefit of US $0.18 from by-product credits and changes in volumes and inventories. Unfavourable variances include approximately US $0.11 increase in copper concentrate purchases, a US $0.10 increase in mining and processing costs, a US $0.03 increase in general and administrative, a US $0.02 exchange impact on Canadian dollar costs, and an increase of approximately US $0.05 for profit sharing expenses due to the higher earnings. Increased mining and processing costs have been influenced by higher cost of consumables such as heavy fuel oil, grinding media, and steel products.

The calculation of cash cost per pound of zinc is strongly influenced by by-product metal prices, which may fluctuate going forward.

OPERATING COSTS

		Quarter Ended Mar 31, 2005	Quarter Ended June 30, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2005	Year Ended Dec 31, 2005
Mines						
777	*$/tonne*	42.20	36.07	32.33	40.46	37.60
Trout Lake	*$/tonne*	36.39	31.49	34.81	39.11	35.43
Chisel North	*$/tonne*	36.28	37.56	47.62	48.23	42.40
Konuto	*$/tonne*	40.32	34.81	31.94	39.80	36.42
Total mines	*$/tonne*	39.16	34.55	35.09	40.92	37.36
Concentrators						
Flin Flon	*$/tonne*	8.21	7.68	7.88	7.95	7.93
Snow Lake	*$/tonne*	16.51	17.30	15.82	19.80	17.35
Metallurgical Plants						
Copper Smelter	*$/lb Cu*	0.24	0.24	0.26	0.25	0.25
Zinc Plant	*$/lb Zn*	0.25	0.25	0.28	0.26	0.26
Non-GAAP Reconciliation of Operating Expenses ($000):						
Mines:						
777	*C$000*	10,136	9,488	9,029	12,466	41,119
Trout Lake		7,754	6,926	7,338	8,407	30,425
Chisel North		3,141	3,084	4,147	3,906	14,278
Konuto		3,510	3,132	2,648	2,090	11,380
Concentrators:						
Flin Flon		4,538	4,290	4,605	4,501	17,934
Snow Lake		1,414	1,375	1,322	1,638	5,749
Metallurgical Plants:						
Copper Smelter		10,770	11,226	11,970	13,009	46,975
Zinc Plant		16,015	16,005	15,646	17,416	65,082
Other:						
Purchased Concentrate Treated		34,555	32,747	43,606	50,998	161,906
Anode Freight & Refining		6,313	5,931	5,713	4,936	22,893
Services & Administration		6,059	6,186	7,024	7,084	26,353
Care & Maintenance		820	1,122	878	620	3,440
Zochem (excluding zinc purchases from HBMS)		4,131	4,279	3,081	2,396	13,887
Other[(1)]		8,557	8,319	8,359	(6,138)	19,097
Total Operating Expenses, per financials		117,713	114,110	125,366	123,329	480,518

(1) Includes profit sharing, changes in domestic inventory, share of CMM and miscellaneous provisions.

CASH FLOWS, LIQUIDITY, AND CAPITAL RESOURCES

The following table summarizes our cash flows for the three and twelve-month periods ended December 31, 2005, and 2004.

	Quarter Ended Dec 31, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2004[1]	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004[1]
	($000's except per share amounts)				
Operating Activities					
Earnings (loss) for the period	**43,941**	23,405	(2,858)	**85,218**	(9,920)
Items not affecting cash	**(10,739)**	9,758	(729)	**37,953**	705
Net change in non-cash items	**23,952**	(11,349)	959	**21,691**	1,987
Cash generated by (required for) operating activities	**57,154**	21,814	(2,628)	**144,862**	(7,228)
Cash generated by (required for) investing activities	**(19,478)**	(15,341)	346,855	**(57,430)**	(274,084)
Cash generated by (required for) financing activities	**(22,736)**	201	(281,937)	**(7,368)**	344,440
Foreign exchange gain (loss) on cash held in foreign currency	**840**	(4,761)	(689)	**(2,957)**	(689)
Increase in cash and cash equivalents	**15,780**	1,913	61,601	**77,107**	62,439

(1) Excludes results of HBMS prior to December 21, 2004.

With the exception of ten days in December 2004, HudBay had no production and was essentially a development stage enterprise. As such, discussion and analysis of 2005 compared to 2004 has been limited and, additionally, a comparison of results achieved in the third and fourth quarters of 2005 has been provided.

Quarter Ended December 31, 2005 Compared to Quarter Ended September 30, 2005

As of December 31, 2005, HudBay had cash and cash equivalents of $141.7 million compared to $125.9 million as at September 30, 2005. As at December 31, 2005, there were outstanding letters of credit in the amount of $35.2 million unchanged from September 30, 2005.

Cash flow from operating activities totaled $57.2 million for the quarter ended December 31, 2005 compared to $21.8 million for the quarter ended September 30, 2005. During the third quarter additional cash outlays were made of approximately $11.5 million for interest, $10.9 million due to timing of purchase concentrates, and $4.6 for insurance premiums which were not incurred in the last quarter. The remaining difference of $3.9 million was a result of normal working capital fluctuations.

In the fourth quarter of 2005, a net total of $19.5 million was required for investing activities, which related largely to capitalized mine development and other sustaining capital expenditures at HBMS. Also, Balmat capital expenditures started in November 2005 and approximately $1.9 million was spent in the fourth quarter. This compares to $15.3 million required for investment in development and

other sustaining capital in the third quarter of 2005. As planned, the third quarter decrease in investing activities partially related to equipment purchases rescheduled into the fourth quarter. Financing activities in the fourth quarter of 2005 resulted in cash outlays of $21.3 million which included a US $19.0 million repurchase of debt at a premium of $1.5 million, a $0.9 million repayment under capital lease obligations, offset by approximately $1.6 million proceeds from the exercise of warrants. Financing activities in the third quarter of 2005 generated $0.2 million, which included approximately $1.1 million proceeds from the exercise of warrants, and a $0.9 million repayment under capital lease obligations.

As at December 31, 2005, HudBay had long-term financial debt (excluding the current portion) of $223.4 million compared to $223.4 as at September 30, 2005. The change in the amount outstanding arises from a change in the quarter-end exchange rate used to convert US $ denominated debt, and the repurchase of debt described above, and repayments of capital leases. The Company will continue to consider, from time to time, reducing debt further.

Net cash flow for the quarter ended December 31, 2005 was $15.8 million compared to $1.9 million for the quarter ended September 30, 2005. Aside from the repurchase of debt of $22 million, and an increase in capital expenditures of approximately $6.0 million as indicated above, working capital changes were primarily the reason for the changes from quarter to quarter. The third quarter included significant cash expenditures as described above. Other changes were in the normal course of working capital variances.

New cash requirements for the near term include approximately US $15 million (US $13 million plus US $2 million of adjustments), incurred in early 2006, for the purchase of the White Pine Refinery, and an estimated 2006 expenditure of US $19 million for the Balmat mine.

Quarter Ended December 31, 2005 Compared to Quarter Ended December 31, 2004

As of December 31, 2005, HudBay had cash and cash equivalents of $141.7 million compared to $64.6 million as at December 31, 2004. As at December 31, 2005, there were outstanding letters of credit in the amount of $35.2 million, while there were $22.8 million of outstanding letters of credit in 2004.

Cash flow from operations totaled $57.1 million for the quarter ended December 31, 2005.

This relates primarily to HBMS operations, and compares with $2.6 million cash required for operating activities in the same period in 2004 when the Company incurred a loss of $2.9 million primarily in relation to management fees, mine care and maintenance activities and debenture interest expense, along with only 10 days operations of HBMS.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Cash flow from operations totaled $144.9 million for the year ended December 31, 2005. This relates primarily to HBMS operations, which contributed $153.3 million, and compares with $7.2 million cash required for operating activities in the same period in 2004 when the Company incurred a loss of $9.9 million primarily in relation to management fees, mine care and maintenance activities and debenture interest expense.

FINANCIAL CONDITION

Financial Condition at December 31, 2005 Compared to Financial Condition as at December 31, 2004

Cash and cash equivalents at December 31, 2005 increased to $77.1 million compared to December 31, 2004.

Working capital improved by $61.8 million, reflecting the improved cash position net of $13.0 million of restricted cash and routine fluctuations in other working capital items.

Common share capital increased by $23.5 million, which included $12.9 million from exercise of warrants, $1.1 million from exercise of options and $10.0 million from flow-through shares net of $0.6 million share issue costs.

Restricted cash decreased by $13 million as funds placed in trust for the Provinces of Manitoba and Saskatchewan as financial assurance for the Company's asset retirement obligations were replaced with letters of credit As at December 31, 2005, there were outstanding letters of credit in the amount of $35.2 million unchanged from September 30, 2005.

HudBay's contractual obligations at December 31, 2005 are materially unchanged from December 31, 2004 except that, for the mutual benefit of both parties, the agreement to purchase from Compania Minera Dona Ines de Collahuasi was terminated effective June 30, 2005. Pursuant to the agreement, the Company purchased 40,000 dmt of copper concentrate per year. The termination of the agreement, which would otherwise have expired in 2008, is not expected to impact the Company's ability to obtain copper concentrate for its Flin Flon copper smelter.

The Company entered into a long-term agreement for the purchase of 10% of another mine's concentrate, or approximately 13,000 dry metric tonnes in 2006, and 20% of annual production or approximately 26,000 dry metric tonnes each year thereafter. The term of this agreement is from 2006 to 2015 and is subject to certain termination rights effective after December 31, 2008.

The Company committed to acquire 100% ownership of White Pine Copper Refinery Inc., through HBMS, by exercising an option held by its joint venture marketing Company Considar Metal Marketing Inc. (CMM) effective January 1, 2006.

Pursuant to a previous commitment to exchange HBMS' outstanding 9 $^{5}/_{8}$% Senior Secured Notes due January 15, 2012 (issued on December 21, 2004 in a private placement), a prospectus was filed in Ontario and a registration statement on Form F-10 (for which that prospectus formed a part) was filed with the SEC in August 2005. The Form F-10 registration statement registered the exchange of HBMS's outstanding notes for 9$^{5}/_{8}$% Senior Secured Exchange Notes due January 15, 2012 under the United States Securities Act of 1933, as amended (the "Securities Act of 1933"). The terms of the exchange notes are identical in all material respects to those of the previously outstanding notes, except that the exchange notes are not subject to the same transfer restrictions. The exchange offer was both commenced and completed during the quarter ended September 30, 2005. 100% of the notes were exchanged.

The Company has received a commitment from the Bank of Nova Scotia to establish a revolving credit facility in the total amount of C$25 million. In addition, the bank may consent to increasing the credit facility to C$50 million if HBMS satisfies certain conditions. The facility closed in February 2006.

The Collective Bargaining Agreements (CBA's) with the unionized HBMS' Flin Flon/Snow Lake workforce expired on December 31, 2005 and negotiations are underway. In 1998, and in support of the $435 million 777 Project, HBMS entered into a Amending Agreement in respect of certain of its collective bargaining agreements. The

amending agreement prohibits strikes and lockouts through 2012 and provides for binding arbitration in the event that negotiated CBA settlements are not achieved.

RISK MANAGEMENT

The Company uses forward exchange contracts to limit the effects of movements in exchange rates on foreign currency denominated assets and liabilities and future anticipated transactions. At December 31, 2005 the Company held US dollar put options giving it the right, but not the obligation, to sell up to US $56.9 million in equal quarterly amounts at $1.20482 per US dollar, from January 2006 and continuing to January 2009.

From time to time the Company maintains price protection programs and conducts commodity price risk management to reduce risk through the use of financial instruments. The Company manages risk associated with forward physical sales that are made on a fixed price basis regarding zinc and zinc oxide and, accordingly, enters into forward zinc purchase contracts. These contracts effectively offset the Company's forward sales price commitments. In the current environment of strong base metal market prices, the Company has benefited from full exposure to metal price movements, but may consider implementing protection to limit the effects of future price changes.

CLOSURE AND ENVIRONMENTAL RECLAMATION PROVISIONS

HBMS has completed an evaluation of the closure and reclamation plans for its Manitoba and Saskatchewan operations and a review of other potential environmental costs to a feasibility level of accuracy. The closure plans have been updated and completed to the feasibility level of accuracy by major Canadian environmental engineering firms.

Based on the results of the evaluations to date, HudBay is satisfied that current financial statement provisions for closure and environmental reclamation obligations in Manitoba, Saskatchewan and elsewhere, are adequate and appropriate. The HudBay financial statement provision for closure and environmental reclamation has been adjusted to reflect the estimates of $55.1 million, which has been recorded as a net present value of $29.2 million. These provisions may be modified based on the review process currently being done by the governments of Manitoba and Saskatchewan.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual Obligations

The following table summarizes, as at December 31, 2005, certain of our contractual obligations for the period specified.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
			($000)		
Contractual Obligations (as at December 31, 2005)					
Interest on long-term debt obligations	113,503	17,462	34,924	34,924	26,193
Long-term debt obligations	195,493	4,000	11,500	—	179,993
Capital lease obligations	12,836	4,436	8,400	—	—
Operating lease obligations	3,939	2,515	1,282	142	—
Purchase obligations	11,700	11,700	—	—	—
Pension and other employee future benefits obligations	20,386	20,386	—	—	—
Asset retirement	55,059	462	1,833	2,400	50,364
Total	412,916	60,961	57,939	37,466	256,550

Commitments

(a) Buy-sell commitments:

The Company has a commitment to purchase copper concentrate for payment based on a deemed delivery rather than a required physical delivery. The contract requires delivery of 72,000 tonnes annually from 2006 to 2008.

The Company also has a long-term agreement for the purchase of 10% or approximately 13,000 dry metric tonnes in 2006, and 20% of annual production or approximately 26,000 dry metric tonnes each year thereafter. The term of this agreement is from 2006 to 2015 and is subject to certain termination rights effective after December 31, 2008.

Payment for purchased concentrates is based on the market price of contained metal during a quotational period following delivery of the concentrate, less a fixed treatment and refining credit. If the Company cannot process the deemed tonnage in a timely manner, management believes the Company will be able to negotiate alternate arrangements for the sale or diversion of the tonnage.

The Company relies partly on processing purchased concentrates to achieve a portion of profits. The continued availability of such concentrates at economic terms beyond the expiry of current existing contracts cannot be determined at this time.

(b) Other commitments and agreements:

(i) On January 1, 2006 the Company entered into an agency agreement with CMM for the Company's copper and precious metals products. As a result of this agreement, the Company retains title to the copper and precious metals until they are ultimately sold to the customers. In order to facilitate this agreement, the Company, in effect,

on December 31, 2005 acquired the inventory of CMM. This purchase resulted in a reversal of the originating sales transactions associated with these products. Therefore the net result was the removal of any associated profit margin and inclusion of the associated inventories in the financial statements of the Company.

(ii) On the majority of the 777 mine, the Company is subject to a royalty payment of $0.25 per ton of ore milled and a net profits interest of $6^2/_3$% of the net proceeds of production if cumulative and aggregate cash flow for the year is positive. To date, the aggregate cash flow has been negative.

(iii) HBMS has a profit-sharing plan, whereby 10% of the Company's after-tax earnings (excluding provisions for future income tax) calculated in accordance with Canadian generally accepted accounting principles for any given fiscal year will be distributed to all employees in the Flin Flon/Snow Lake operations, with the exception of executive officers and key management personnel. This expense has been accrued in these financial statements.

(iv) The Company entered into a security agreement dated March 31, 1999 in favour of the Province of Saskatchewan in respect of its reclamation undertakings in Saskatchewan. As security for the implementation of decommissioning plans in respect of its undertakings in Saskatchewan, the Company has granted to the Province of Saskatchewan a first priority security interest in its mining equipment, buildings and fixtures and a first charge on all proceeds derived from any dealings with such mining equipment, buildings and fixtures. In addition, the Company has a security agreement dated May 7, 2004 in favour of the Province of Manitoba in respect of its reclamation undertakings in Manitoba. As security for the implementation of a decommissioning plan in respect of its undertakings in Manitoba, the Company has granted to the Province of Manitoba a first priority security interest in its mining equipment, buildings and fixtures owned by the Company and located on the lands and a first charge on all proceeds derived from any dealings with such mining equipment, buildings and fixtures. The security interests granted to the Provinces of Saskatchewan and Manitoba rank pari passu.

The Company has substantially completed a study of reclamation costs. The Company believes the existing security provided is adequate and sufficient. However, the Company has provided additional security to the provinces in the form of a letter of credit in the amount of $13 million. Upon completion of the review of the study by the Provinces, the appropriate security may be reassessed.

(v) In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions, such as purchase and sale contracts, service agreements and leasing transactions. These indemnification agreements may require the Company to compensate the counterparties for costs incurred as a result of various events, including environmental liabilities, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification

agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications. Management estimates that there are no significant liabilities with respect to these indemnification guarantees.

(vi) The Company has outstanding letters of credit in the amount of $35.2 million (including the above-mentioned amount for environmental reclamation).

(vii) In 2003, the Company established a wholly-owned subsidiary, St. Lawrence Zinc Company LLC ("St. Lawrence"). St. Lawrence was incorporated in the State of New York for the purposes of acquiring the Balmat zinc mine ("Balmat"). On September 24, 2003, St. Lawrence purchased the Balmat zinc mine and related assets located in upper New York State. Total consideration paid consisted of a cash deposit of U.S. $1 million required to assume an environmental bond. In addition, contingent consideration, consisting of US $20 million, was provided for in connection with the acquisition. The contingent consideration will be accounted for as additional purchase price as the contingencies are resolved and the amounts payable become fixed and/or determinable. The contingent consideration is payable out of 30% of the net future cash flow from operations after allowing for reasonable capital and exploration expenditures. A further $5 million is payable if the monthly average special high grade settlement price of zinc, as quoted by The London Metal Exchange, averages $0.70 or greater during any consecutive 24-month period after the closing date and prior to the fifth anniversary of the date on which the seller receives payment of the $20 million.

(viii) Pursuant to a Purchase Agreement dated February, 2002, the Company acquired from Regal Mines Limited certain properties and other assets located in Nova Scotia, including lead and zinc mining and milling operations (collectively the "Gays River"). A component of the purchase price was a 2% of net smelter return payable based on operations. The Company has entered into a letter of intent to sell its holding in Scozinc Limited to Acadian Gold Corporation for $7.5 million. The potential sales transaction with Acadian Gold Corporation of Halifax is subject to the satisfaction of certain conditions, including the provision of certain cash deposits, board approvals, the purchaser completing satisfactory financing agreements, due diligence, the entering into of a definitive sale and purchase agreement and receipt of all necessary regulatory approvals.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in accordance with Canadian GAAP requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses. We evaluate the estimates periodically, including those relating to mineral reserve determinations, asset impairment, in-process inventory quantities, future income tax valuation reserves, asset retirement obligations, pension obligations and other employee future benefits. Actual results could differ from these estimates by material amounts.

Mineral Reserves and Mineral Resources

Mineral reserves and mineral resources are estimated to determine future recoverable mine production based on assessment of geological, engineering and metallurgical analyses, estimates of future production costs, capital costs and reclamation costs as well as metal prices. The costs of mineral properties and mine development are capitalized and amortized by the unit-of-production basis based on related proven and probable mineral reserves.

Impairment

The carrying value of our operating mines and plant and equipment is periodically reviewed for impairment when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets may not be recoverable. If total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and recorded to write down the asset to its fair value.

In-Process Inventories

In-process concentrates and metal inventory quantities comprise the majority of our inventories by value, and represent materials that are in the process of being converted into saleable product. Measurement of in-process inventories is based on assays of material received at our metallurgical plants and estimates of recoveries in the production processes. Realizable value of in-process inventories is estimated at financial statement dates and inventories are carried at the lower of cost and net realizable value.

Future Tax Assets and Liabilities

We use the liability method of tax allocation for accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Future tax assets are reduced by a valuation allowance if it is more likely than not that some or all of the future tax assets will not be realized. We evaluate the carrying value of our future tax assets periodically by assessing its valuation allowance and by adjusting the amount of such valuation allowance, if necessary. The factors used to assess the likelihood of realization are forecasts of future taxable income and available tax planning strategies that could be implemented to realize future tax assets.

Asset Retirement Obligations

Asset retirement obligations are estimated based on environmental plans, in compliance with current environmental and regulatory requirements. Decommissioning costs are estimated and provided for, along with an identical decommissioning asset, when a new mine or plant is placed into commercial production. The decommissioning asset is amortized on a straight-line basis over the life of the mine or plant. Accretion costs are estimated and accrued over the life of each operating mine. The accrued amounts are increased by an annual interest component such that at the end of the asset life the provision is equal to the balance estimated to be paid at that date.

In view of the uncertainties concerning these future obligations, the ultimate timing and cost of reclamation and mine closure may differ materially from our estimates.

Pensions and other Employee Future Benefits

Our on-going health care benefit plans comprise the majority of post-retirement obligations. The obligations relating to these plans, together with pension plans maintained by us, are estimated based on actuarial determinations, which incorporate assumptions using management's best estimates of factors including plan performance, salary escalation, retirement dates of employees and drug cost escalation rates.

DISCLOSURE CONTROLS

As of December 31, 2005 management has evaluated the effectiveness of the disclosure controls and procedures as defined under the rules adopted by the U.S. Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities. This evaluation was performed under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective.

2006 OUTLOOK

The Company plans to focus on the following key areas for 2006:

- Growth opportunities
- Balmat re-opening
- Exploration
- Purchase of White Pine
- Divestiture of Scozinc
- Improve financial strength
- Relationship change with CMM
- 2006 expected production

Growth Opportunities

In 2006, the Company will look at opportunities to identify and evaluate strategic growth, focusing on zinc but not to the exclusion of copper, precious metals or secondary products. Opportunities synergistic with the Company's fully vertically integrated operations will be of particular interest.

Balmat Re-opening

HudBay decided to re-open its wholly owned Balmat mine and concentrator after completion of an internal feasibility study.

The Balmat zinc mine is strategically located near a multi-modal transportation system, which includes truck, rail and ocean transportation options for concentrate. Most of the mines production will be treated at the CEZ refinery close to Montreal, some 158 kilometres from the mine.

The Company plans to continue in-fill ore definition drilling, as well are extension drilling, to upgrade our mineral reserve and resource base. Drilling to date has shown good ore body consistency.

The Balmat mine has been maintained to a high standard while on care and maintenance since October 2001. It includes a 3,200 foot deep shaft, underground excavations to access the ore zones, extensive mining equipment and a 5,000 ton per day ore concentrator. Recovery of zinc to concentrate is expected to be 96%, producing a concentrate containing 55.5% zinc. At full production in 2008, the mine is expected to produce close to, approximately 60,000 tons of zinc metal in concentrate, which is planned to be processed at the CEZ Refinery in Quebec, with the capability for the Company to process 40% of the concentrate at its zinc plant in Manitoba.

Life of mine total unit zinc production costs, including concentrate treatment and capital expenditures, are expected average US $0.48 lb. (US $0.57 per lb. for 2006 to 2008, and US $0.43 per lb. thereafter).

At year end, we have hired approximately 100 permanent employees and have some 25 underground development and diamond drill contractors at site. Several of the professional skills were available in the mine area. At full production the mine is expected to have approximately 190 employees.

We expect Balmat's first ore in the second quarter of 2006 and then increasing to full production in 2008.

Exploration

Our focus for 2006 is on exploration activities in the Flin Flon greenstone belt. In 2005, the Company raised $10 million through an issue of flow through common shares. This provided the funding for the $10 million planned expenditure during 2005 and Q1 2006 for exploration on its approximately 210,000 hectares of prime exploration land holdings in the Flin Flon greenstone belt. We plan to continue the $10 million per year program throughout 2006 and 2007.

Exploration includes targets that could feed the Snow Lake concentrator which is operating under capacity. HudBay has historically discovered 25 mines in the Flin Flon greenstone belt and further discoveries are an excellent opportunity for organic growth. The exploration program includes electromagnetic anomaly drill testing, drilling of known mineral deposits as well as drilling of structural re-interpretations of prior ore bodies. During the recent winter months, we had six diamond drills operating.

Exploration is being managed by Hudson Bay Exploration and Development Company Limited (HBED), a wholly owned subsidiary of HBMS.

Historically, the Flin Flon greenstone belt ore bodies, have grown by an average of 2.5 times the mineral reserve at commencement of mining. Further growth of ore bodies currently being mined is expected.

In addition, the company also expects to be exploring the approximate 20,000 hectares of land adjacent to its Balmat mine in New York State and its lead/zinc deposit, Tom Valley in the Yukon Territory, as well as its zinc holdings in Ontario and copper holdings in Chile.

Purchase of White Pine

On January 1, 2006, we completed the purchase of all the outstanding common shares of White Pine Copper Refinery Inc. (White Pine) for a total purchase price of US $13.0 million plus US $2.1 million in adjustments. The acquisition of this refinery, which processes all of the Company's anode copper into cathode quality copper, completes HudBay's vertical integration, provides a dedicated processing facility for our copper anodes, as well as lowers the Company's operating costs by approximately two cents per pound of copper processed. We expect to spend total of $5 million in capital expenditures for 2006.

Divestiture of Scozinc

In December 2005, we announced we had entered into a letter of intent to sell Scozinc (Gays River's lead and zinc mineral property) to Acadian Gold Corporation for $7.5 million. The transaction is expected to be completed in 2006 subject to satisfaction of certain conditions.

Relationship Change with CMM

On January 1, 2006, the Company changed its relationship with CMM from a sales to an agency arrangement, whereby 100% of copper and precious metal inventory are owned by the Company until sold to customers. In the first half of 2006, the Company plans to convert the remaining products of zinc and zinc oxide under the same arrangement.

Improve Financial Strength

Early in 2006, our HBMS subsidiary received a commitment from the Bank of Nova Scotia to establish a revolving credit facility in the total amount of C$25 million. The Bank may consent to increasing the credit facility to C$50 million if the Company satisfies certain conditions.

As at year end we repurchased $19 million of the 9.625% US notes to reduce the outstanding amount of this debt to US $156 million. In 2006, the Company, may, from time to time, divert cash toward further debt reduction.

2006 Expected Production

Estimated production for 2006 is:

Zinc	tonnes	120,000	to	140,000
Copper[(1)]	tonnes	45,000	to	55,000
Gold	troy oz.	85,000	to	100,000
Silver	troy oz.	1,000,000	to	1,300,000

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding the Company's future plans and objectives are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove accurate, and actual results and future events could differ materially from those anticipated in such statements.

Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in documents that we have filed from time to time with the Canadian and other regulatory authorities.

Certain items of financial information in this MD&A, including free cash flow, operating cash flow per common share, unit operating expenses, and cash cost per pound of zinc, net of by-product credits, are non-GAAP measures and are furnished to provide additional information. As non-GAAP measures they neither have standardized meanings nor are they necessarily comparable with similar measures presented by other companies. These measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles and are not necessarily

(1) Domestic copper production only.

indicative of operating expenses as determined under generally accepted accounting principles. These measures are intended to provide investors with information about the cash generating capabilities of the Company's operations. HudBay uses this information for the same purpose. Mining operations are capital intensive. These measures exclude capital expenditures. Capital expenditures are discussed throughout the MD&A and the consolidated financial statements.

APPENDIX — HBMS PRODUCTION

A summary of production statistics for the fourth quarter of 2005, as well as year-to-date data, together with comparative information for 2004 is shown in the following table.

		Quarter Ended Dec 31, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2004	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004
Mines:						
777						
Ore	*tonnes*	**308,099**	279,258	245,695	**1,093,683**	975,895
Copper	*%*	**2.28**	2.28	2.54	**2.24**	2.89
Zinc	*%*	**5.10**	4.34	4.22	**4.47**	4.50
Gold	*g/tonne*	**2.06**	2.18	2.03	**2.11**	2.27
Silver	*g/tonne*	**24.56**	23.93	21.25	**23.84**	23.14
Trout Lake						
Ore	*tonnes*	**214,982**	210,802	226,630	**858,751**	916,097
Copper	*%*	**1.79**	1.29	1.36	**1.39**	1.46
Zinc	*%*	**3.86**	5.70	6.06	**5.61**	5.32
Gold	*g/tonne*	**1.32**	1.57	1.47	**1.47**	1.46
Silver	*g/tonne*	**13.35**	14.63	15.69	**14.59**	13.57
Chisel North						
Ore	*tonnes*	**80,995**	87,090	83,158	**336,731**	327,853
Zinc	*%*	**8.97**	8.31	8.89	**9.00**	9.99
Konuto[4]						
Ore	*tonnes*	**52,522**	82,895	74,953	**312,465**	327,231
Copper	*%*	**3.30**	3.35	3.91	**3.90**	4.07
Zinc	*%*	**2.36**	2.07	2.13	**1.81**	2.08
Gold	*g/tonne*	**1.73**	1.33	1.66	**1.65**	1.91
Silver	*g/tonne*	**11.46**	8.32	9.71	**9.17**	9.61
Total Mines:						
Ore	*tonnes*	**656,598**	660,045	630,436	**2,601,630**	2,547,076
Copper	*%*	**1.94**	1.83	1.97	**1.89**	2.18
Zinc	*%*	**4.95**	5.01	5.25	**5.11**	5.19
Gold	*g/tonne*	**1.59**	1.65	1.57	**1.64**	1.70
Silver	*g/tonne*	**19.95**	18.63	17.78	**19.40**	18.26

(4) Konuto mine closed in the fourth quarter of 2005.

Fourth Quarter Results

		Quarter Ended Dec 31, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2004	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004
Concentrators:						
Flin Flon Concentrator:						
Ore	*tonnes*	**556,445**	584,362	529,875	**2,262,555**	2,156,051
Copper	*%*	**2.23**	2.13	2.22	**2.14**	2.46
Zinc	*%*	**4.32**	4.44	4.71	**4.53**	4.50
Gold	*g/tonne*	**1.75**	1.85	1.79	**1.80**	1.89
Silver	*g/tonne*	**19.01**	18.19	17.48	**18.15**	17.33
Copper Concentrate Produced	*tonnes*	**49,465**	48,763	47,081	**188,851**	208,961
Grade	*% Cu*	**23.99**	23.94	22.95	**23.82**	23.60
Zinc Concentrate Produced	*tonnes*	**38,115**	42,488	39,476	**164,416**	152,453
Grade	*% Zn*	**52.15**	51.40	50.76	**51.51**	50.42
Copper recovery to Cu Conc	*%*	**93.7**	93.7	91.8	**92.8**	93.0
Gold recovery to Cu Conc	*%*	**72.5**	71.8	79.5	**74.9**	69.6
Silver recovery to Cu Conc	*%*	**66.1**	64.6	76.4	**66.3**	68.1
Zn recovery to Zn Conc	*%*	**81.2**	84.1	80.2	**82.6**	79.2
Snow Lake Concentrator:						
Ore	*tonnes*	**82,729**	83,570	85,580	**331,427**	327,853
Zinc	*%*	**9.00**	8.26	8.91	**9.00**	9.99
Zinc Concentrate Produced	*tonnes*	**14,118**	13,058	14,431	**56,646**	61,825
Grade	*% Zn*	**51.21**	51.25	51.48	**51.25**	51.52
Zn recovery to Zn Conc	*%*	**97.1**	96.9	97.4	**97.3**	97.3

		Quarter Ended Dec 31, 2005	Quarter Ended Sept 30, 2005	Quarter Ended Dec 31, 2004	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004
Smelter						
Copper Concentrate Treated						
Domestic	*tonnes*	**55,172**	49,780	55,068	**206,343**	185,349
Purchased	*tonnes*	**28,828**	28,212	28,252	**111,935**	98,750
Total	*tonnes*	**84,000**	77,992	83,320	**318,278**	284,099
Zinc Plant						
Zinc Concentrate Treated						
Domestic	*tonnes*	**59,856**	51,339	56,784	**228,107**	219,561
Purchased	*tonnes*	**0**	0	0	**0**	3,488
Total	*tonnes*	**59,856**	51,339	56,784	**228,107**	223,049
Metal Produced						
From HBMS Mines						
Copper	*tonnes*	**13,822**	11,538	12,557	**49,179**	43,653
Zinc	*tonnes*	**30,485**	25,733	28,323	**114,557**	108,404
Gold	*troy oz.*	**25,311**	22,759	26,220	**100,144**	77,611
Silver	*troy oz.*	**264,259**	205,144	240,336	**916,810**	696,454
From Purchased Concentrates						
Copper	*tonnes*	**9,985**	9,182	9,351	**37,106**	33,241
Zinc	*tonnes*	**35**	43	24	**131**	1,815
Gold	*troy oz.*	**546**	441	412	**1,927**	1,407
Silver	*troy oz.*	**137,131**	126,685	136,091	**493,702**	418,114
Total Metal Produced						
Copper	*tonnes*	**23,807**	20,720	21,908	**86,285**	76,894
Zinc	*tonnes*	**30,520**	25,775	28,348	**114,687**	110,219
Gold	*troy oz.*	**25,860**	23,200	26,632	**102,371**	79,018
Silver	*troy oz.*	**401,385**	331,829	376,427	**1,410,512**	1,114,568
HBMS Metal Sold[(5)]						
Copper	*tonnes*	**17,644**	19,800	20,815	**78,070**	73,905
Zinc, incl sales to Zochem	*tonnes*	**29,598**	29,500	27,973	**114,682**	111,319
Gold	*troy oz.*	**21,783**	21,800	25,403	**95,511**	75,578
Silver	*troy oz.*	**358,434**	309,500	343,144	**1,321,784**	1,054,998

(5) The primary difference between Total Metal Produced and HBMS Metal Sold is related to the change in the contractual arrangement with CMM. See note on HudBay Agency Arrangement.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Exhibit 4

We consent to the use of our report dated March 17, 2006 on the consolidated financial statements of HudBay Minerals Inc. as at and for the year ended December 31, 2005 (which audit report expresses an unqualified opinion on the financial statements and includes a separate paragraph referring to our consideration of internal control over financial reporting) included in this Annual Report on Form 40-F.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Winnipeg, Manitoba, Canada
March 21, 2006

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Exhibit 5

Consent of Kim Lau, BSc. P. Geo.

I, Kim Lau BSc. P.Geo., hereby consent to the use of and reference to my name included in or incorporated by reference in the Annual Report on Form 40-F for the year ended December 31, 2005 filed by HudBay Minerals Inc.

/s/ Kim Lau

Kim Lau BSc. P.Geo.
March 21, 2006

QuickLinks

Consent of Kim Lau, BSc. P. Geo.

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Exhibit 6

Consent of Gerry Beauchamp, BSc., P.Eng.

I, Gerry Beauchamp, BSc., P.Eng., hereby consent to the use of and reference to my name included in or incorporated by reference in the Annual Report on Form 40-F for the year ended December 31, 2005 filed by HudBay Minerals Inc.

/s/ Gerry Beauchamp

Gerry Beauchamp, BSc., P.Eng.
March 21, 2006

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Consent of Gerry Beauchamp, BSc., P.Eng.

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Exhibit 7

CERTIFICATION REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a)

I, Peter R. Jones, President and Chief Executive Officer of HudBay Minerals Inc., certify that:

1. I have reviewed this annual report on Form 40-F of HudBay Minerals Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 21, 2006

By: /s/ PETER R. JONES

Name: Peter R. Jones
Title: President and Chief Executive Officer

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CERTIFICATION REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a)

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Exhibit 8

CERTIFICATION REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a)

I, Jeffrey A. Swinoga, Vice-President and Chief Financial Officer of HudBay Minerals Inc., certify that:

1. I have reviewed this annual report on Form 40-F of HudBay Minerals Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 21, 2006

By: /s/ JEFFREY A. SWINOGA

Name: Jeffrey A. Swinoga
Title: Vice-President and Chief Financial Officer

QuickLinks

CERTIFICATION REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a)

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Exhibit 9

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

HudBay Minerals Inc. (the "Company") is filing with the U.S. Securities and Exchange Commission, on the date hereof, its annual report on Form 40-F for the fiscal year ended December 31, 2005 (the "Report").

I, Peter R. Jones, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

a) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2006

/s/ PETER R. JONES

Name: Peter R. Jones
Title: President and Chief Executive Officer

QuickLinks

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ENACTED PURSUANT TO SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

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Exhibit 10

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

HudBay Minerals Inc. (the "Company") is filing with the U.S. Securities and Exchange Commission, on the date hereof, its annual report on Form 40-F for the fiscal year ended December 31, 2005 (the "Report").

I, Jeffrey A. Swinoga, Vice-President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

a) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2006

/s/ JEFFREY A. SWINOGA

Name: Jeffrey A. Swinoga
Title: Vice-President and Chief Financial Officer

QuickLinks

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ENACTED PURSUANT TO SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002